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de Alimentos

Executive Board
Annual Session

Rome, 7–11 June 2010

# RESOURCE, FINANCIAL AND BUDGETARY MATTERS

## Agenda item 6

*For approval*

# AUDITED ANNUAL ACCOUNTS, 2009

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# NOTE TO THE EXECUTIVE BOARD

**This document is submitted to the Executive Board for approval**

The Secretariat invites members of the Board who may have questions of a technical nature with regard to this document to contact the WFP staff focal points indicated below, preferably well in advance of the Board's meeting.

| | | |
|---|---|---|
| Chief Financial Officer and Deputy Executive Director, RM*: | Ms G. Casar | tel.: 066513-2885 |
| Director, Financial Reporting Service: | Mr G. Craig | tel.: 066513-2094 |
| Chief, RMFFG**: | Ms M. Bautista-Owen | tel.: 066513-2240 |

Should you have any questions regarding matters of dispatch of documentation for the Executive Board, please contact Ms I. Carpitella, Administrative Assistant, Conference Servicing Unit (tel.: 066513-2645).

* Resource Management and Accountability Department
** General Accounts Branch

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The Secretariat is pleased to submit the Audited 2009 Financial Statements together with the Audit Opinion and the Report by the External Auditor. This is the second set of financial statements that have been prepared under the International Public Sector Accounting Standards (IPSAS). The External Auditor has completed the audit in accordance with International Standards on Auditing, and has provided an unqualified audit opinion.

This document (WFP/EB.A/2010/6-A/1) is submitted to the Board in accordance with General Regulation XIV.6 (b) and Financial Regulations 13.1 and 14.2, which provide for the submission to the Board of the audited financial statements of WFP and an associated report of the External Auditor. This is the second time that the statements and the report are presented together as one document.

Since 2008, the WFP Secretariat has presented its responses to the External Auditor's recommendations at the same session at which the External Auditor's report is presented. These responses are reflected in "Report on the Implementation of the External Auditor's Recommendations" (WFP/EB.A/2010/6-H/1).

# DRAFT DECISION*

The Board:

i) approves the 2009 Annual Financial Statements of WFP, together with the Report of the External Auditor, pursuant to General Regulation XIV.6 (b);

ii) notes the funding from the General Fund of US$896,097 during 2009 for the ex-gratia payments and write-off of cash losses and advances to staff and suppliers; and

iii) notes post-delivery losses of commodities during 2009 forming part of the operating expenses for the same period.

* This is a draft decision. For the final decision adopted by the Board, please refer to the Decisions and Recommendations document issued at the end of the session.

# SECTION I

## Executive Director's Statement

### INTRODUCTION

1. In accordance with Article XIV.6 (b) of the General Regulations and Financial Regulation 13.1, I have the honour to submit for the approval of the Executive Board (the Board) the financial statements of the World Food Programme (WFP) for the year ended 31 December 2009. The External Auditor has given his opinion and report on the 2009 financial statements, both of which are also submitted to the Board as required by Financial Regulation 14.8 and the Annex to the Financial Regulations.

### FINANCIAL AND BUDGET PERFORMANCE HIGHLIGHTS

*Summary*

2. The 2008–2009 biennium presented extraordinary challenges for WFP, its donors and its beneficiaries. The high food and fuel price crisis that emerged in 2008 followed by the deep global recession throughout 2009 impacted WFP profoundly by raising beneficiary numbers and operational costs.

3. Despite this volatility, WFP ended 2009 in a position of financial strength. Donors provided record levels of support in 2008 (US$5,038.0 million) as a response to urgent global appeals. This strong support continued into 2009 despite the financial crisis, with US$4,205.2 million in contributions, the second-highest ever level. This record support from donors allowed WFP to scale up to meet increased needs and reach its highest-ever level of operations in 2009.

4. Under the International Public Sector Accounting Standards (IPSAS) accounting, WFP recognizes its contributions as revenue when these are confirmed in writing, whereas expenses are recognized when goods and services are received or when food commodities are delivered. There is an inherent time-lag between the recognition of revenue and the recognition of expense. The resources available for expense in any one year therefore include both the fund balances at the end of the previous year (cash, contributions confirmed but not received, food stocks, etc.) and new contributions confirmed in writing during the year. Consequently, expenses in any one-year period may be higher or lower than the contribution revenue as WFP utilizes or replenishes its fund balances.

5. With the balance of resources available at the end of 2008 and the additional resources provided by donors in 2009, WFP expenses amounted to US$4,228.1 million, an increase of US$534.6 million – or 14 percent higher than in 2008 (US$3,693.5 million).

6. Given the situation in Somalia where conflict and lack of governance has made normal monitoring and controls extremely challenging WFP has continually had to reassess its procedures, performing seven audits and three Inspector General investigations over the last 15 years. Based on the most recent Inspector General investigation performed in the fall of 2009, WFP put in place a number of new procedures and controls, and in

January 2010 halted operations in southern Somalia when the ability to safely maintain standards and controls proved impossible given growing security issues and threats. On 10 March 2010 the United Nations Monitoring Group on Somalia (MGS), which was created pursuant to 2008 Security Council resolution 1853, issued a report that included allegations about WFP's controls and mentioned a high level of food diversions. While we have found many inaccuracies in the MGS report and have carefully pointed them out in a letter to the Security Council committee pursuant to 1992 and 2009 Security Council resolutions 751 and 1907, respectively, concerning Somalia and Eritrea, I have publicly stated that WFP welcomes an independent investigation of these claims. This is in keeping with own practices where WFP conducts regular audits and investigations in high risk areas, such as the Democratic People's Republic of Korea, and put in place recommended systems improvements. I expect a number of additional actions to be taken within the next six months, many to be launched within the next few weeks, to address these issues, including a thorough audit of the improved controls and their implementation and a review by our investigations unit of the MGS's evidence. The Board is also considering a request for an external audit of such controls.

## *Financial Performance*

7. In 2009, total revenue was US$4,373.3 million, a reduction of US$709.9 million or 14 percent from the record high revenue of US$5,083.2 million in 2008. In 2009, total revenue was comprised of contributions (US$4,205.2 million), currency exchange revenue (US$44.2 million), return on investments (US$38.7 million) and other revenue (US$85.2 million).

8. Contributions revenue in 2009 included US$3,445.0 million in monetary contributions and US$760.2 million from in-kind contributions. The total contribution revenue of US$4,205.2 million represents a reduction of US$832.8 million or 17 percent from the contribution revenue confirmed in 2008 of US$5,038.0 million. However, actual contribution revenue over the 2008–2009 biennium (US$9,243.2 million) exceeded the forecast revenue of US$8,400 million per the last update in the 2008–2009 Management Plan.

9. Expenses in 2009 totalled US$4,228.1 million, an increase of US$534.6 million or 14 percent from 2008 expenses. This increase in spending is due to WFP's increased operational activity in 2009 reflecting higher tonnage of food distributed in 2009 compared to 2008, and the utilization of revenue received in 2008. Of the total increase in spending, 71 percent is in the area of food commodities distributed and distribution and related services. Food commodities distributed in 2009 increased by 900,000 mt from 3.9 million in 2008 to 4.8 million in 2009, a 23 percent increase.

10. The surplus of revenue over expenses narrowed to US$145.2 million from US$1,389.7 million in 2008, as a result of three main factors:

- the decrease in contribution revenue of US$832.8 million from US$5,038.0 million in 2008 to US$4,205.2 million in 2009;
- the increase in spending of US$534.6 million from US$3,693.5 million in 2008 to US$4,228.1 million in 2009; and

- the increase in other non-operational revenue items of US$122.9, namely a positive change in currency exchange revenue as the US dollar weakened in 2009 against most other currencies (US$66.1 million), unrealized gains in the investments held by WFP (US$48.3 million) and other revenue (US$8.5 million).

## *Financial Position*

11. The cumulative result of WFP's performance is that, as at 31 December 2009, and as detailed in *Statement I – Statement of Financial Position*, WFP has US$4,058.1 million in total Fund Balances and Reserves, of which US$3,042.7 million relate to the Programme's projects, disclosed as Programme Category Funds. The balance relates to the General Fund and Special Accounts, Reserves and Bilateral Operations and Trust Funds.

12. Assuming the 2010 operational level as per the first update of the 2010–2011 management plan, the fund balance relating to the Programme's projects of US$3,042.7 million represents approximately seven months of operational activity.

13. Overall cash balances (cash, cash equivalents and short-term investments) held to support the Programme's overall requirements have increased by US$312.0 million or 22 percent from US$1,432.4 million in 2008 to US$1,744.4 million in 2009. Higher cash balances are consistent with the increased level of WFP operations.

14. WFP's cash and short-term investments included in the Programme Category Funds segment of US$969.4 million cover approximately four months of operational activity.

15. Total 2009 contributions receivable were US$2,045.6 million, a slight increase of US$15.3 million or 1 percent from the contributions receivable in 2008 of US$2,030.3 million. Receivables due within one year have decreased in line with a reduction in contributions revenue. Receivables due beyond one year have increased as some donors have a multi-year contribution pledge arrangement. The overall average collection period is six months.

16. WFP's 2009 food commodity inventory value has decreased by US$279.7 million or 28 percent from the 2008 value as a result of a reduction in metric tonnes held and a decline in international commodity prices. Food commodity inventory quantity held at the end of 2009 was 1.4 million mt, a 16 percent decrease from the balance held at the end of 2008 of 1.7 million mt.

17. At the 2010 projected commodity distribution rate, WFP has approximately three to four months of food commodity inventory on hand.

## *Budgetary Performance*

### *Basis of the budget*

18. *Statement V – Statement of Comparison of Budget and Actual Amounts*, highlights how WFP has performed against budget, derived from the Biennial Management Plan for 2008–2009. Budget figures in the statement are needs-based and reflect the total of

project budgets approved by the Board or under delegated authorities. Budget is utilized ('actuals') when commitments are raised.

19. The original 2009 budget estimate of US$2,707.7 million was presented to the Board in October 2007. Between then and the end of 2009, the Programme of Work expanded to reflect changes in WFP's cost bases – the 2008 global increase in commodity and fuel prices – combined with poor harvests due to drought which increased local commodity prices and reduced the availability of food. In addition, new and continuing conflicts resulted in large displacements of populations creating the need for new or expanded project requirements. The final 2009 budget was US$6,493.1 million, an increase of US$3,785.4 million, 140 percent.

*Actual budgetary performance – actual utilization of budget*

20. During 2009, WFP utilized US$3,783.8 million, 58 percent of its total final 2009 budget. This utilization rate was reflected across the various cost components utilization rates – the food commodity budget has been consumed at 54 percent whereas external transport consumption is at 37 percent, landside transport, storage and handling at 70 percent, other direct operational costs (ODOC) at 61 percent and direct support costs (DSC) at 62 percent. The variation in the consumption of the different cost components of the budget is due to a number of different operational factors such as the planned origin of the commodities versus the actual location where food purchases were conducted. Changing the geographical location of commodity purchases can have a positive impact on commodity, external transport and overland transport budgets.

21. It is important to note that for WFP, the budget utilization is limited by the amount and timing of confirmed contributions from donors. In 2009, WFP had a final budget amount of US$6,493.1 million of which it received confirmed contributions of US$4,205.2 million, or 65 percent of the 2009 requirements. WFP's operating model involves a time lag between when a contribution is confirmed and when it is fully implemented.

22. The original 2009 Programme Support and Administrative (PSA) budget was increased from US$196.7 million to US$294.6 million, as per the revised 2008–2009 Management Plan, approved by the Board in October 2008. The final PSA budget consists of US$238.8 million for regular PSA and US$55.8 million for the Capital and Capacity Funds. The regular PSA portion is comprised of the approved US$225 million plus the 2008 unutilized PSA budget of US$13.8 million which was carried forward into 2009, giving a total of US$238.8 million available for utilization in 2009.

23. The entire unutilized 2008 PSA budget of US$13.8 million was utilized in 2009, and of the final approved regular 2009 PSA budget of US$225 million, US$212.2 million, 94 percent was utilized.

24. Of the final approved Capital and Capacity budget, 70 percent had been utilized as at 31 December 2009. Most of the variance can be attributed to the United Nations Department of Safety and Security (UNDSS) security funds appropriations not utilized and the appropriation for ICT systems upgrade which were not implemented in full.

## ENHANCING TRANSPARENCY AND ACCOUNTABILITY

25. These financial statements have been prepared in accordance with IPSAS. At the end of 2009, WFP remained the only United Nations agency to implement IPSAS. By adopting and implementing IPSAS in 2008, WFP enhanced its ability to produce relevant and useful financial information, improving the transparency and accountability with which WFP manages its resources, and in 2009, WFP took several additional significant steps to further enhance transparency and accountability.

26. Certain financial functions were consolidated within the responsibilities of the Deputy Executive Director for Resource Management and Accountability and Chief Financial Officer to rationalize the management of the resources of WFP. WFP also created the Strategic Resource Allocation Committee (SRAC), to improve formal senior management decision-making in the allocation of strategic resources.

27. Furthermore, to maintain and strengthen IPSAS compliance in 2009, WFP also integrated the knowledge and experience gained during the IPSAS implementation process into our day-to-day business processes:

- With the implementation of the WFP Information Network and Global System II (WINGS II), several of WFP's business processes were automated, the most important of which was the inventory recording and management system. This automation facilitates the analysis and management of WFP's food commodity inventory throughout WFP's field operations, and represents a more efficient way to account for food commodity balances.

- Several of the cross-functional working groups set up during the IPSAS project in 2008 were maintained in 2009. These working groups, consisting of staff from the finance, administrative and operational functions, worked to ensure that changes to business processes had a positive impact on WFP's ability to maintain compliance with IPSAS.

- Staff from the IPSAS project team of 2008 were also integrated as far as possible into business units throughout WFP, helping to ensure that the technical capacity developed during the IPSAS project was retained by WFP.

- WFP maintained an active role in assisting other United Nations agencies in their efforts to implement IPSAS for the first time, through involvement in the High-Level Committee on Management's (HLCM) Task Force on IPSAS. WFP was honoured in that regard in December 2009 to host a joint meeting of the IPSAS Board and the United Nations IPSAS Task Force in WFP's premises in Rome, recognition for the leadership WFP had shown to implement IPSAS from 2008.

28. IPSAS accounting standards are constantly being updated to reflect best practice. WFP's continued compliance with IPSAS requires significant focus to ensure keep up to date with professional developments. No new standards were issued in 2009; however since the beginning of 2010, four new standards have been issued, dealing with financial instruments and intangibles (IPSAS 28: Financial Instruments: Presentation; IPSAS 29: Financial Instruments: Recognition and Measurement; IPSAS 30: Financial Instruments: Disclosures; and IPSAS 31: Intangible Assets). IPSAS 31 is effective from 2011, the others from 2013. WFP is committed to implementing these IPSAS as soon as possible.

29. Continued compliance with IPSAS has been and will remain a priority. WFP is also moving further to gain the maximum impact IPSAS can have on the level of transparency and accountability in all aspects of its operations. The recommendations made by the External Auditor in this regard in his report to the Board in the 2009 First Regular Session "IPSAS Dividend: Strengthening Financial Management" will be implemented in 2010.

30. WINGS II was implemented from 1 July 2009 and like all new business systems, its processes required time to become fully embedded. This raised possible risks to continued IPSAS compliance which were addressed during 2009 as follows:

- All financial balances were migrated from WINGS to WINGS II during the financial period. WFP adopted a specific and detailed migration strategy to ensure that all balances were fully and correctly migrated into WINGS II.

- The completeness of the entry of financial transaction processing in WINGS II was closely monitored through the preparation and analysis of the monthly "Financial Dashboard". The Dashboard highlights potential financial accounting risks for WFP at all levels, in Headquarters and in the field. The targeting of areas highlighted by this risk management tool gave assurance to the complete entry of financial transactions by the closure of accounts at the end of 2009.

## ENTERPRISE AND FINANCIAL RISK MANAGEMENT

31. At the 2003 Second Regular Session of the Board, as a matter of good practice, WFP committed to strengthen risk management and in November 2005 the Board approved WFP's risk management policy. Since then, WFP has taken various actions to embed risk management across all its activities and is continuing to enhance its internal processes following IPSAS and WINGS II implementation.

32. WFP has an established framework of internal controls, including internal audit, inspections and investigations units and the Audit Committee, designed to maximize the effective and efficient use of resources as well as to safeguard its assets. I have reviewed the system of internal controls and the results of internal audit examinations.

33. An Enterprise Risk Management (ERM) Framework is under elaboration, at the heart of which is the recognition that WFP should not react to situations, but be proactive in managing risks. WFP is constructing, based on its past actions on risk management, a risk profile for the organization, which visually communicates major risks affecting our strategy and mandate. This profile presents the potential impact and likelihood of risks on WFP. A comprehensive risk register is a companion to this profile that highlights processes at risk and allows WFP to identify appropriate mitigation actions and assign

responsibility for managing and mitigating risks. The ERM Integrated Framework will have a built-in risk escalation system that will trigger actions by the senior managers and the Executive Risk Management Committee (ERMC). Over time, a fully embedded ERM will enable WFP to identify, record and follow up mitigation actions and maintain the risks below the Enterprise Risk Appetite (tolerance). By the third quarter of 2010, we will initiate a phased roll-out of the ERM framework in WFP.

34. WFP's activities expose it to a variety of financial risks, including the effects of changes in debt and equity market prices, foreign currency exchange rates, interest rates and defaults by debtors in meeting its obligations. WFP's financial risk management policies focus on the unpredictability of financial markets and seek to minimize, where feasible, potential adverse effects on the financial performance of WFP.

35. Financial risk management is carried out by a central treasury function using guidelines set out by the WFP Investment Committee and advice from the World Bank. Established policies cover areas of financial risk such as foreign exchange, interest rate and credit risk, the use of derivative financial instruments, and the investing of excess liquidity. There is also no perceived risk that receivables and payables may not be liquidated when they fall due.

36. In 2009, WFP issued updated investment policy and guidelines setting out the principles and parameters of investment of funds donated and/or entrusted to WFP, which are not immediately required in programme implementation. The primary objective of this new investment policy is the preservation of the value of resources having regard to the security of principal, liquidity and rate of return.

37. Foreign exchange (FX) forward contracts are used to hedge the Euro versus US dollar exchange exposure on PSA salary expenses incurred at Headquarters. Pursuant to Executive Board approval at the 2009 Annual Session, WFP entered into 24 monthly FX forward contracts to buy 5 million Euros each month at fixed rates versus the US dollar in July 2009. The monthly contracts cover the period January 2010 until December 2011.

38. WFP's employee benefit liabilities totalled US$278.7 million at 31 December 2009. WFP sought the advice from independent actuaries in establishing the value of these liabilities. Of this amount, US$143.4 million has been funded to date through the charging of relevant funds and projects. The balance of US$135.3 million has not yet been charged to individual funds and projects. These liabilities are accounted for as liabilities of the General Fund.

39. In addition to the actuarial valuation exercise, in 2009 an Asset and Liability Management study was undertaken for the Employee Benefits Plans. The study reviewed WFP's employee benefit liabilities, the existing funding set aside to cover these liabilities and proposed options for future funding strategies. The study proposed options for funding strategy that will enable WFP to achieve full funding of these liabilities over time. The results of this study are now being reviewed and a new funding proposal will be presented to the Board for its approval during 2010.

## SUSTAINABILITY

40. WFP has evaluated the consequences of any potential reduction in contributions in the context of the global economic and financial crises, and whether it would lead to a consequential reduction in the scale of operations and number of beneficiaries assisted. Having considered WFP's projected activities and the corresponding risks, I am confident that WFP has adequate resources to continue to operate in the medium term. For this reason, we will continue to adopt the going concern basis in preparing WFP's financial statements.

41. My above assertion is supported by: i) the requirements I put forward in the Management Plan for 2010–2011; ii) the Strategic Plan prepared for the period 2008–2013; iii) the net assets held at the end of the period and contributions received in 2009; iv) the projected contributions levels for the year 2010; and v) the trend in donor support that has been sustaining WFP's mandate since its inception in 1963.

## ADMINISTRATIVE MATTERS

42. WFP's principal place of business as well as the names and addresses of its General Counsel, actuaries, principal bankers and External Auditor are indicated in Annex I of this document.

## RESPONSIBILITY

43. As required under Financial Regulation 13.1, I am pleased to submit the following financial statements which have been prepared under IPSAS. I certify that to the best of my knowledge and information, all transactions during the period have been properly entered in the accounting records and that these transactions together with the following financial statements and notes, details of which form part of this document, fairly present the financial position of WFP at 31 December 2009.

| | | |
|---|---|---|
| Statement I | - | Statement of Financial Position at 31 December 2009 |
| Statement II | - | Statement of Financial Performance for the Year Ended 31 December 2009 |
| Statement III | - | Statement of Changes in Net Assets for the Year Ended 31 December 2009 |
| Statement IV | - | Statement of Cash Flow for the Year Ended 31 December 2009 |
| Statement V | - | Statement of Comparison of Budget and Actual Amounts for the Year Ended 31 December 2009 |

Notes to the Financial Statements

Signed on original
Josette Sheeran
Executive Director

Rome, 31 March 2010

## WORLD FOOD PROGRAMME
### STATEMENT I
### STATEMENT OF FINANCIAL POSITION
### AT 31 DECEMBER 2009
***(US$ millions)***

| | Note | 2009 | 2008 |
|---|---|---|---|
| **ASSETS** | | | |
| **Current assets** | | | |
| Cash and cash equivalents | 2.1 | 1 162.2 | 972.3 |
| Short-term investments | 2.2 | 582.2 | 460.1 |
| Contributions receivable | 2.3 | 1 896.7 | 1 991.2 |
| Inventories | 2.4 | 738.4 | 1 021.8 |
| Other receivables | 2.5 | 131.8 | 127.9 |
| | | **4 511.3** | **4 573.3** |
| **Non-current assets** | | | |
| Contributions receivable | 2.3 | 148.9 | 39.1 |
| Long-term investments | 2.6 | 204.2 | 186.6 |
| Property, plant and equipment | 2.7 | 45.7 | 18.7 |
| Intangible assets | 2.8 | 43.6 | 30.9 |
| | | **442.4** | **275.3** |
| **TOTAL ASSETS** | | **4 953.7** | **4 848.6** |
| **LIABILITIES** | | | |
| **Current liabilities** | | | |
| Payables and accruals | 2.9 | 480.8 | 567.8 |
| Provisions | 2.10 | 24.4 | 29.0 |
| Employee benefits | 2.11 | 23.3 | 16.2 |
| | | **528.5** | **613.0** |
| **Non-current liabilities** | | | |
| Employee benefits | 2.11 | 255.4 | 224.3 |
| Long-term loan | 2.12 | 111.7 | 111.2 |
| | | **367.1** | **335.5** |
| **TOTAL LIABILITIES** | | **895.6** | **948.5** |
| **NET ASSETS** | | **4 058.1** | **3 900.1** |
| **FUND BALANCES AND RESERVES** | | | |
| Fund balances | 7.1 | 3 792.0 | 3 621.6 |
| Reserves | 2.14 | 266.1 | 278.5 |
| **TOTAL FUND BALANCES AND RESERVES** | | **4 058.1** | **3 900.1** |

*The accompanying notes form an integral part of these financial statements.*

Signed on original
Josette Sheeran
Executive Director

Rome, 31 March 2010

## WORLD FOOD PROGRAMME
### STATEMENT II
### STATEMENT OF FINANCIAL PERFORMANCE
### FOR THE YEAR ENDED 31 DECEMBER 2009
***(US$ millions)***

| | Note | 2009 | 2008 |
|---|---|---|---|
| **REVENUE** | | | |
| Monetary contributions | **3.1** | 3 445.0 | 4 150.9 |
| In-kind contributions | **3.2** | 760.2 | 887.1 |
| Currency exchange differences | **3.3** | 44.2 | (21.9) |
| Return on investments | **3.4** | 38.7 | (9.6) |
| Other revenue | **3.5** | 85.2 | 76.7 |
| **TOTAL REVENUE** | | **4 373.3** | **5 083.2** |
| | | | |
| **EXPENSES** | | | |
| Commodities distributed | **4.1** | 2 380.4 | 2 198.1 |
| Distribution and related services | **4.2** | 749.6 | 551.1 |
| Wages, salaries, employee benefits and other staff costs | **4.3** | 617.8 | 555.1 |
| Supplies, consumables and other running costs | **4.4** | 115.6 | 114.6 |
| Contracted and other services | **4.5** | 303.5 | 237.4 |
| Finance costs | **4.6** | 2.7 | 2.7 |
| Depreciation and amortization | **4.7** | 12.5 | 2.4 |
| Other expenses | **4.8** | 46.0 | 32.1 |
| **TOTAL EXPENSES** | | **4 228.1** | **3 693.5** |
| | | | |
| **SURPLUS FOR THE PERIOD** | | **145.2** | **1 389.7** |

*The accompanying notes form an integral part of these financial statements.*

# WORLD FOOD PROGRAMME

## STATEMENT III

## STATEMENT OF CHANGES IN NET ASSETS

## FOR THE YEAR ENDED 31 DECEMBER 2009

***(US$ millions)***

| | Note | Accumulated Surpluses/ Fund Balances | Surplus | Reserves | Total Net Assets |
|---|---|---|---|---|---|
| **31 December 2008** | | **2 231.9** | **1 389.7** | **278.5** | **3 900.1** |
| Allocation of surplus for 2008 | | 1 389.7 | (1 389.7) | - | - |
| **Movements in fund balances and reserves in 2009** | | | | | |
| Transfer from/to reserves | 2.14 | 12.4 | - | (12.4) | - |
| Unrealized gains on long-term investment recognized directly within fund balance | 2.6 / 2.14 | 12.8 | - | - | 12.8 |
| Surplus for the period | 7.2 | - | 145.2 | - | 145.2 |
| **Total movement during the year** | | **25.2** | **145.2** | **(12.4)** | **158.0** |
| **TOTAL NET ASSETS** | | **3 646.8** | **145.2** | **266.1** | **4 058.1** |

*The accompanying notes form an integral part of these financial statements.*

## WORLD FOOD PROGRAMME

### STATEMENT IV

### STATEMENT OF CASH FLOW

### FOR THE YEAR ENDED 31 DECEMBER 2009

***(US$ millions)***

| | Note | 2009 | 2008 |
|---|---|---|---|
| **Cash flows from operating activities:** | | | |
| Surplus for the period | | 145.2 | 1 389.7 |
| (Increase)/decrease in inventories | **2.4** | 283.4 | (505.9) |
| Unrealized (gains)/losses on short-term investments | **2.2** | (37.3) | 51.4 |
| (Increase) in contributions receivable | **2.3** | (15.3) | (787.3) |
| (Increase)/decrease in other receivables | **2.5** | (4.8) | 34.5 |
| Depreciation and amortization | **2.7** | 12.5 | 2.4 |
| (Increase) in property, plant and equipment (donated in kind) | **2.7** | - | (0.5) |
| Increase/(decrease) in payables and accruals | **2.9** | (87.0) | 105.2 |
| Increase/(decrease) in provisions | **2.10** | (4.6) | 9.6 |
| Increase in employee benefits | **2.11** | 38.2 | 12.4 |
| Increase in amortized value of long-term loan | **2.12** | 0.6 | 0.6 |
| Interest expense on long-term loan | **2.12** | 2.1 | 2.1 |
| **Net cash flows from operating activities** | | **333.0** | **314.2** |
| **Cash flows from investing activities:** | | | |
| (Increase)/decrease in short-term investments | **2.2** | (84.8) | 161.6 |
| Decrease in accrued interest receivable | **2.5** | 0.8 | 0.1 |
| (Increase) in long-term investments | **2.6** | (4.8) | (14.8) |
| (Increase) in property, plant and equipment | **2.7** | (35.6) | (18.5) |
| (Increase) in intangible assets | **2.8** | (16.6) | (16.9) |
| **Net cash flows from investing activities** | | **(141.0)** | **111.5** |
| **Cash flows from financing activities:** | | | |
| Interest paid on long-term loan | **2.12** | (2.1) | (2.1) |
| **Net cash flows from financing activities** | | **(2.1)** | **(2.1)** |
| **Net increase in cash and cash equivalents** | | **189.9** | **423.6** |
| **Cash and cash equivalents at beginning of the year** | **2.1** | **972.3** | **548.7** |
| **Cash and cash equivalents at end of the year** | **2.1** | **1 162.2** | **972.3** |

*The accompanying notes form an integral part of these financial statements.*

**WORLD FOOD PROGRAMME**

**STATEMENT V**

**STATEMENT OF COMPARISON OF BUDGET AND ACTUAL AMOUNTS***

**FOR THE YEAR ENDED 31 DECEMBER 2009**

***(US$ millions)***

| | Notes | Budget Amount | | Actual on comparable basis | Difference: final budget and actual |
|---|---|---|---|---|---|
| | | **Original Budget** | **Final Budget** | | |
| **Cost components** | 6 | | | | |
| Food | | 1 142.2 | 3 104.9 | 1 676.8 | 1 428.1 |
| External transport | | 276.6 | 687.4 | 254.4 | 433.0 |
| Landside transport, storage and handling | | 675.5 | 1 298.9 | 903.8 | 395.1 |
| Other direct operational costs | | 128.4 | 444.5 | 272.8 | 171.7 |
| Direct support costs | | 288.3 | 662.8 | 410.9 | 251.9 |
| **Subtotal direct costs** | | **2 511.0** | **6 198.5** | **3 518.7** | **2 679.8** |
| Regular programme support and administrative costs | | 183.4 | 238.8 | 226.0 | 12.8 |
| Capital and capacity funds | | 13.3 | 55.8 | 39.1 | 16.7 |
| **Subtotal indirect costs** | | **196.7** | **294.6** | **265.1** | **29.5** |
| **TOTAL** | | **2 707.7** | **6 493.1** | **3 783.8** | **2 709.3** |

*The accompanying notes form an integral part of these financial statements.*

* Prepared on a commitment basis

# Notes to the Financial Statements at 31 December 2009

## NOTE 1: ACCOUNTING POLICIES

### Basis of Preparation

1. The financial statements of the World Food Programme (WFP) have been prepared on the accrual basis of accounting in accordance with the International Public Sector Accounting Standards (IPSAS) using the historic cost convention, modified by the inclusion of investments and loans either at fair value or amortized cost. Where an IPSAS does not address a particular issue, the appropriate International Financial Reporting Standard (IFRS) has been applied.

2. In accordance with IPSAS requirements, and reflecting the nature of WFP's business, revenue from contributions confirmed in writing is recognized as non-exchange transactions as per IPSAS 23, Revenue from Non-Exchange Transactions. WFP considers that while there are restrictions on the use of contributions, these restrictions do not meet the definition of a condition as described under IPSAS 23.

3. The following accounting standards have been adopted prior to their required implementation dates: IPSAS 4 (revised): The Effects of Changes in Foreign Exchange Rates and IPSAS 25: Employee Benefits.

4. Transitional provisions have been applied in the initial recognition of property, plant and equipment (PP&E) which were purchased or donated before 1 January 2008. These were recognized at the cost of acquisition less accumulated depreciation, where the asset had more than five years remaining useful life (IPSAS 17).

5. The Cash Flow Statement (Statement IV) is prepared using the indirect method.

6. The functional and reporting currency of WFP is the United States dollar (US$). Transactions in currencies other than US$ are translated into US$ at the prevailing United Nations Operational Rates of Exchange (UNORE) at the time of transaction. Assets and liabilities in currencies other than US$ are translated into US$ at the prevailing UNORE year end closing rate. Resulting gains or losses are accounted for in the Statement of Financial Performance.

### Cash and Cash Equivalents

7. Cash and cash equivalents comprise cash on hand, cash at banks, money market and short-term deposits, including those held by investment managers.

8. Investment revenue is recognized as it accrues, taking into account the effective yield.

## Financial Instruments

9. Financial instruments are recognized when WFP becomes a party to the contractual provisions of the instrument until such time as when the rights to receive cash flows from those assets have expired or have been transferred and WFP has transferred substantially all the risks and rewards of ownership.

10. Financial assets that are held for trading are measured at fair value and any gains or losses arising from changes in the fair value are accounted for through surplus or deficit and included within the Statement of Financial Performance in the period in which they arise. The short-term investments are classified within this category since they are held to support WFP operations and therefore may be divested of in the short term which may generate trading gains or losses. Derivatives are also classified as held for trading.

11. Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in active markets. Loans and receivables comprise contributions receivable in cash, other receivables and cash and cash equivalents. Loans and receivables are stated at amortized cost.

12. Held to maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturity that WFP has the intention and ability to hold to maturity. Held to maturity investments comprise the United States Treasury Separate Trading of Registered Interest and Principal of Securities (STRIPS) held within the long-term investment portfolio and are stated at amortized cost.

13. Available for sale financial assets are non-derivative financial assets that are not designated within any other category. Available for sale assets comprise the long-term investments other than the United States Treasury STRIPS. They are carried at fair value, with value changes recognized in the Statement of Changes in Net Assets.

14. All non-derivative financial liabilities are recognized initially at fair value, and subsequently measured at amortized cost using the effective interest method.

## Inventories

15. Food commodities and non-food items on hand at the end of the financial period are recorded as inventories and are valued at lower cost or current replacement cost.

16. The cost of food commodities includes purchase cost or fair value[1] if donated in-kind and all other costs incurred in bringing the food commodities into WFP's custody at their point of first entry into a recipient country where they become distributable. In addition, any significant costs of conversion such as milling or bagging are included. Cost is determined on the weighted average basis.

17. Food commodities are expensed when distributed directly by WFP or once they are handed over to cooperating partners for distribution.

[1] Indicators of the fair value for food commodities donated in-kind include world market prices, the Food Aid Convention price and the donor's invoice price.

## Contributions and Receivables

18. Contributions are recognized when confirmed in writing by donors.

19. Receivables are presented net of allowances for estimated reductions in contribution revenue and doubtful accounts.

20. In-kind contributions of services that directly support approved operations and activities, which have budgetary impact, and can be reliably measured, are recognized and valued at fair value. These contributions include use of premises, utilities, transport and personnel.

21. Donated property, plant and equipment (PP&E) are valued at fair market value and recognized as fixed asset and revenue.

## Property, Plant and Equipment

22. Property, plant and equipment are stated at historical cost less accumulated depreciation and any impairment losses. Depreciation is provided for PP&E over their estimated useful life using the straight line method, except for land which is not subject to depreciation. The estimated useful life for PP&E classes are as follows:

| Class | Estimated useful life (years) |
|---|---|
| Buildings | |
| Permanent | 40 |
| Temporary | 5 |
| Computer equipment | 3 |
| Office equipment | 3 |
| Office fixtures and fittings | 5 |
| Security and safety equipment | 3 |
| Telecommunication equipment | 3 |
| Motor vehicles | 5 |
| Workshop equipment | 3 |

23. Leasehold improvements are recognized as assets and valued at cost, and depreciated over the lesser of remaining useful life of the improvements or the lease term.

24. Impairment reviews are undertaken for all assets at least annually.

## Intangible Assets

25. Intangible assets are stated at historical cost less accumulated amortization and any impairment losses.

26. Amortization is provided over the estimated useful life using the straight-line method. The estimated useful life for intangible asset classes are as follows:

| Class | Estimated useful life (years) |
|---|---|
| Software acquired externally | 3 |
| Internally developed software | 6 |
| Licenses and rights, copyrights and other intangible assets | 3 |

## Employee Benefits

27. WFP recognizes the following employee benefits:

- short-term employee benefits which fall due wholly within twelve months after the end of the accounting period in which employees render the related service;
- post-employment benefits; and
- other long-term employee benefits.

28. Certain categories of employees of WFP are members of the United Nations Joint Staff Pension Fund (UNJSPF). The Pension Fund is a multi-employer funded, defined benefit plan. UNJSPF is not in a position to identify its share of the underlying financial position and performance of the plan on an IPSAS 25 basis with sufficient reliability for accounting purposes, and treats this plan as if it were a defined contribution plan.

## Provisions and Contingent Liabilities

29. Provisions are made for future liabilities and charges where WFP has a present legal or constructive obligation as a result of past events and it is probable that WFP will be required to settle the obligation.

30. Other commitments, which do not meet the recognition criteria for liabilities, are disclosed in the notes to the financial statements as contingent liabilities when their existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events which are not wholly within the control of WFP.

## Fund Accounting and Segment Reporting

31. A fund is a self-balancing accounting entity established to account for the transactions of a specified purpose or objective. Funds are segregated for the purpose of conducting specific activities or attaining certain objectives in accordance with special regulations, restrictions or limitations. The financial statements are prepared on a fund accounting basis, showing at the end of the period the consolidated position of all WFP funds. Fund balances represent the accumulated residual of revenue and expenses.

32. A segment is a distinguishable activity or group of activities for which financial information is reported separately in order to evaluate an entity's past performance in achieving its objectives and for making decisions about the future allocation of resources. WFP classifies all projects, operations and fund activities into three segments: i) Programme Category Funds; ii) General Fund and Special Accounts; and iii) Bilateral Operations and Trust Funds. WFP reports on the transactions of each segment during the financial period, and the balances held at the end of the period.

33. The Programme Category Funds is an accounting entity established by the Board for the purposes of accounting for contributions, revenue and expenses for all programme categories. Programme categories include development, emergency relief, protracted relief, and special operations.

34. The General Fund is the accounting entity established for recording, under separate accounts, indirect support costs (ISC) recoveries, miscellaneous income, operational reserve and contributions received which are not designated to a specific programme category, project or a bilateral project. Special Accounts are established by the Executive Director under Financial Regulation 5.1 for special contributions or monies earmarked for specific activities, the balances of which may be brought forward to the succeeding financial period.

35. Bilateral Operations and Trust Funds are also identifiable subdivisions of the WFP Fund. These are established by the Executive Director under Financial Regulation 5.1 in order to account for contributions, the purpose, scope and reporting procedures of which have been agreed upon with the donor under specific trust fund agreements.

36. Reserves are maintained within the General Fund for the purpose of operational support. An operational reserve is maintained within the General Fund as required under Financial Regulation 10.5 to ensure continuity of operations in the event of temporary shortfalls of resources. In addition to the Operational Reserve, other reserves have been established by the Board.

37. WFP may enter into third-party agreements (TPAs) to undertake activities which, while consistent with the objectives of WFP, are outside WFP's normal activities. TPAs are not reported as WFP revenue and expenses. At the year end, the net balance owing to or from third parties is reported as a payable or receivable in the Statement of Financial Position under the General Fund. Service fees charged on TPAs are included within indirect support cost revenue.

## Budget Comparison

38. WFP's budget is prepared on a commitment basis and the financial statements on accrual basis. In the Statement of Financial Performance, expenses are classified based on the nature of expenses whereas in the Statement of Comparison of Budget and Actual Amounts, expenditures are classified by cost components or the source of funding in which the expenditures have to be charged.

39. The Board approves the biennial Management Plan which includes budgeted amounts for direct costs, programme support and administrative costs, and capital and capacity funds. Budgets may be subsequently amended by the Board or through the exercise of delegated authority.

40. Statement V: Comparison of Budget and Actual Amounts compares the final budget to actual amounts calculated on the same basis as the corresponding budgetary amounts. As the bases used to prepare the budget and financial statements differ, Note 6 provides reconciliation between the actual amounts presented in Statement V to the actual amounts presented in Statement IV: Cash Flow.

## Note 2.1: Cash and Cash Equivalents

| | 2009 | 2008 |
|---|---|---|
| | *US$ millions* | |
| **Cash and cash equivalents** | | |
| Bank and cash at Headquarters | 124.2 | 96.6 |
| Bank and cash at regional bureaux and country offices | 44.5 | 66.1 |
| Money market and deposit accounts at Headquarters | 761.1 | 688.2 |
| Cash and cash equivalents held by investment managers | 232.4 | 121.4 |
| **Total Cash and cash equivalents** | **1 162.2** | **972.3** |

41. Cash required for immediate disbursement is maintained in cash and bank accounts. Balances in the money market and deposit accounts are available at short notice.

## Note 2.2: Short-Term Investments

| | 2009 | 2008 |
|---|---|---|
| | *US$ millions* | |
| **Short-term investments** | | |
| Short-term investments | 580.1 | 458.0 |
| Current portion of long-term investments (Note 2.6) | 2.1 | 2.1 |
| **Total Short-term investments** | **582.2** | **460.1** |

42. Short-term investments are divided into three portfolio tranches with distinct investment horizons, and specific investment guidelines and restrictions. The risk profile of short-term investment was reduced in 2008 due to the volatility in the global financial markets during said period and given the continued volatility in the financial markets, the risk profile of short-term investment was further reduced during 2009.

43. Investments that no longer complied with WFP's investment guidelines were maintained in a segregated "legacy" portfolio with the objective of divesting these securities taking into account market conditions and the fundamental value of the underlying securities. Due to the active divestment policy the legacy portfolio has been reduced from US$136.7 million at 31 December 2008 to US$45.2 million at 31 December 2009. During the year unrealized gains on the legacy securities more than offset realized losses which were generated by the reduction of the risk profile of the short-term investments.

44. Short-term investments were valued at US$580.1 million at 31 December 2009 (US$458.0 million at 31 December 2008). Of this amount, US$359.7 million pertains to bonds issued or guaranteed by governments or government agencies (US$226.1 million at 31 December 2008); US$120.9 million pertains to corporate bonds (US$100.5 million at 31 December 2008) and US$99.5 million pertains to non-agency mortgage-backed securities and asset-backed securities (US$131.4 million at 31 December 2008). These investments are stated at fair value based on valuation provided by the independent custodian bank responsible for the administration and safekeeping of the securities.

45. At 31 December 2009, derivatives usage in short-term investments was limited to bond futures and derivatives exposure was considered not to be material. The notional amount of the derivatives financial instruments held in the investment portfolio is US$87.9 million (US$29.9 million at 31 December 2008) with a corresponding derivative offset which gets liquidated at the same time. This brings the book value of these derivatives to zero.

46. The movements in short-term investment accounts during the year are as follows:

| | 2008 | Additions/ (Deductions) | Interest Received | Net Realized Gains/ (Losses) | Net Unrealized Gains/ (Losses) | 2009 |
|---|---|---|---|---|---|---|
| | *US$ millions* | | | | | |
| Short-term investments | 458.0 | 96.9 | 11.1 | (23.2) | 37.3 | 580.1 |
| Current portion of long-term investments | 2.1 | (0.1) | 0.1 | - | - | 2.1 |
| **Total short-term investments** | **460.1** | **96.8** | **11.2** | **(23.2)** | **37.3** | **582.2** |

47. During 2009, short-term investments increased by US$122.1 million. Of this amount, US$37.3 million represents net unrealized gains which have been presented in the Statement of Cash Flow under operating activities. The balance of the increase amounting to US$84.8 million is presented in the Statement of Cash Flow under investing activities.

## Note 2.3: Contributions Receivable

| | 2009 | 2008 |
|---|---|---|
| | *US$ millions* | |
| **Composition:** | | |
| Current | 1 896.7 | 1 991.2 |
| Non-current | 148.9 | 39.1 |
| **Total Net contributions receivable** | **2 045.6** | **2 030.3** |

| | 2009 | 2008 |
|---|---|---|
| | *US$ millions* | |
| Monetary contributions | 1 925.0 | 1 951.1 |
| In-kind contributions | 282.4 | 229.6 |
| **Total Contributions receivable before allowance** | **2 207.4** | **2 180.7** |
| Allowance for reductions in contribution revenue | (151.9) | (146.7) |
| Allowance for doubtful accounts | (9.9) | (3.7) |
| **Total Net contributions receivable** | **2 045.6** | **2 030.3** |

48. Current contributions receivable are for confirmed contributions that are due within twelve months while non-current contributions receivable are those that are due after 12 months from the date of the financial statements.

49. Contributions receivable are shown net of allowances related to reductions in contribution revenue and doubtful accounts.

- allowance for reductions in contribution revenue is based on historical experience. These are reductions of contributions receivable and revenue when the funding is no longer needed by the project to which the contributions were directed or is otherwise unavailable; and
- allowance for doubtful accounts is estimated at the following percentages of outstanding contributions receivable before revaluation adjustments:

| **Contributions receivable outstanding for:** | **%** |
|---|---|
| More than 4 years | 100 |
| Between 3 and 4 years | 50 |
| Between 2 and 3 years | 10 |

50. The following table illustrates the composition of contributions receivable:

| | 2009 | | 2008 | |
|---|---|---|---|---|
| | *US$ millions* | *%* | *US$ millions* | *%* |
| **Year of confirmation** | | | | |
| 2009 | 1 742.8 | 79 | - | - |
| 2008 | 400.5 | 18 | 1 920.4 | 88 |
| 2007 and earlier | 54.7 | 3 | 257.9 | 12 |
| **Subtotal** | **2 198.0** | **100** | **2 178.3** | **100** |
| Revaluation adjustments (non-US$ contributions receivable) | 9.4 | - | 2.4 | - |
| **Total Contributions receivable before allowance** | **2 207.4** | **100** | **2 180.7** | **100** |

51. Allowances for doubtful accounts are for the expected write-offs of contributions receivable where expenses have already been incurred but donors are not expected to provide funding. Actual write-offs require a transfer from the General Fund and approval by the Executive Director for amounts in excess of US$5,000.

52. The movements of the allowance for doubtful accounts during 2009 are as follows:

| | 2008 | Utilization | Increase/ (Decrease) | 2009 |
|---|---|---|---|---|
| | *US$ millions* | | | |
| **Total Allowance for doubtful accounts** | **3.7** | - | **6.2** | **9.9** |

53. There were no write-offs of contributions receivable during 2009. The increase or decrease in the allowance for doubtful accounts represents an expense for the period and is reported in the Statement of Financial Performance.

54. The movements of the allowance for reductions in contribution revenue during 2009 are as follows:

| | 2008 | Utilization | Increase/ (Decrease) | 2009 |
|---|---|---|---|---|
| | *US$ millions* | | | |
| **Total Allowance for reductions in contribution revenue** | **146.7** | **(29.2)** | **34.4** | **151.9** |

55. During 2009, utilization of the allowance for reductions in contribution revenue totalled US$29.2 million and is reported in the Statement of Financial Position. The increase or decrease in the allowance for reductions in contribution revenue represents an expense for the period and is reported in the Statement of Financial Performance.

## Note 2.4: Inventories

56. The following tables show the movements of food and non-food items during the period. The first table shows the total value of inventories – food and non-food - as presented in the Statement of Financial Position. The second table shows a reconciliation of food inventories which reflects the opening balance and the additions during the period reduced by the value of commodities distributed and impairment allowance made during the year.

| | 2009 | 2008 |
|---|---|---|
| | *US$ millions* | |
| Food commodities on hand | 598.1 | 929.3 |
| Food commodities in transit | 125.5 | 75.1 |
| **Subtotal Food commodities** | **723.6** | **1 004.4** |
| Less allowance for impairment - Food | (2.9) | (4.0) |
| **Total Food commodities** | **720.7** | **1 000.4** |
| Non-food items | 17.9 | 21.6 |
| Less allowance for impairment - Non-food | (0.2) | (0.2) |
| **Total Non-food items** | **17.7** | **21.4** |
| **Total Inventories** | **738.4** | **1 021.8** |

| **Food commodities reconciliation** | 2009 | 2008 |
|---|---|---|
| | *US$ millions* | |
| Opening inventory | 1 000.4 | 501.7 |
| Add back: impairment allowance | 4.0 | 2.0 |
| Commodities purchased | 1 052.1 | 1 502.3 |
| In-kind commodities received | 694.8 | 831.5 |
| Transport and related costs | 344.7 | 365.0 |
| **Total Inventory available for distribution** | **3 096.0** | **3 202.5** |
| Less: Food commodities distributed | (2 372.4) | (2 198.1) |
| Allowance for impairment - Food | (2.9) | (4.0) |
| **Total Food commodities** | **720.7** | **1 000.4** |

57. For 2009, food commodities and non-food items distributed totalled US$2,380.4 million, as reported in the Statement of Financial Performance. Of this amount, US$2,372.4 million relates to food commodities and US$8.0 million relates to non-food items.

58. For food commodities, costs incurred up to the first point of entry in the recipient country are included in inventories. These include costs of procurement, ocean transport, port costs and, for food commodities destined for landlocked countries, the overland transport cost across transit countries.

59. Food commodity quantities, derived from WFP's commodity tracking systems, are validated by physical stock counts and valued at weighted average basis.

60. Inventories include non-food items held at WFP warehouses in Dubai and at various strategic storage depots, including the Latin America and the Caribbean Emergency Response Network, and the United Nations Humanitarian Response Depot network.

61. Non-food items include the following: prefabricated building/warehouse, storage tents, water treatment units, solar power packs, satellite phones, ballistic blankets, tyres, motor vehicles and spare parts.

62. An allowance for impairment has been made for possible loss or damage to inventories. The allowance is based on past experience and has been set at 0.4 percent of total food commodities and 0.9 percent for non-food items. Inventories are valued net of any impairments or obsolescence. During 2009, US$3.3 million represents total value of food commodity impaired and is reported in the Statement of Financial Position. The increase or decrease in the allowance for impairment represents an expense for the period and is reported in the Statement of Financial Performance. There was no utilization of allowance nor an increase or decrease thereof for non-food items in 2009.

63. During 2009, movements of impairments are as follows:

| | 2008 | Utilization | Increase/ (Decrease) | 2009 |
|---|---|---|---|---|
| | *US$ millions* | | | |
| Allowance for impairment – Food | 4.0 | (3.3) | 2.2 | 2.9 |
| Allowance for impairment – Non-food | 0.2 | - | - | 0.2 |
| **Total Allowance** | **4.2** | **(3.3)** | 2.2 | **3.1** |

64. Food commodity stocks at 31 December 2009 were 1.4 million mt valued at US$723.6 million (1.7 million mt valued at US$1,004.4 million at 31 December 2008).

## Note 2.5: Other Receivables

| | 2009 | 2008 |
|---|---|---|
| | *US$ millions* | |
| Advances to vendors | 39.5 | 46.5 |
| Advances to staff | 21.7 | 20.6 |
| TPA receivables (Note 11) | 9.9 | 33.0 |
| Miscellaneous receivables | 60.7 | 27.8 |
| **Total Other receivables** | **131.8** | **127.9** |

65. Advances to vendors are for payments in advance of goods and service delivery.

66. Advances to staff are for education grants, rental subsidies, travel and other staff entitlements.

67. Miscellaneous receivables include amounts due from clients for services provided under special accounts, accrued interest receivable, VAT receivables whereby outright tax exemptions have not been obtained from governments as well as the fair value of foreign exchange forward contracts.

## Note 2.6: Long-Term Investments

| | 2009 | 2008 |
|---|---|---|
| | *US$ millions* | |
| US Treasury STRIPS | 83.3 | 81.0 |
| Current portion (Note 2.2) | (2.1) | (2.1) |
| **Long-term portion, US Treasury STRIPS** | **81.2** | **78.9** |
| Bonds | 74.5 | 70.4 |
| Equities | 48.5 | 37.3 |
| **Total Bonds and equities** | **123.0** | **107.7** |
| **Total Long-term investments** | **204.2** | **186.6** |

68. Long-term investments consist of investments in United States Treasury Separate Trading of Registered Interest and Principal of Securities (STRIPS) and investments in bonds and equities. The US Treasury STRIPS were acquired in September 2001 and are held to maturity. The maturities of the securities are phased over 30 years to fund payment of interest and principal obligations on a long-term commodity loan from a donor government agency (Note 2.12), denominated in the same currency as the STRIPS over the same period. The STRIPS bear no nominal interest and were purchased at a discount to their face value; the discount was directly related to prevailing interest rates at the time of purchase of 5.50 percent and to the maturities of the respective STRIPS. The current portion of the STRIPS is equal to the amount required to settle obligations on the long-term loan.

69. Changes in market value of the investment in STRIPS are not recognized. At 31 December 2009, the market value of this investment was US$94.1 million (US$105.1 million at 31 December 2008).

70. The increase in the value of the long-term bond and equity investments results primarily from changes in the market values and to a lesser extent from reinvestment of interest received during 2009.

71. Investments in equities are made through five regional funds which track the composition and performance of the Morgan Stanley Capital International (MSCI) World Index, a recognized index of stocks of all developed world markets. This investment structure provides exposure to global equities markets on a passive basis with risks and returns that mirror the MSCI World Index.

72. The net increase in long-term investment is US$17.6 million as reported in the Statement of Cash Flow, and adjusted for net unrealized gains component of US$12.8 million at the end of 2009. The movements of long-term investments accounts during 2009 are as follows:

| | 2008 | Additions/ (Deductions) | Interest Received/ Amortized | Net Realized gains/ (losses) | Net Unrealized gains/ (losses) | 2009 |
|---|---|---|---|---|---|---|
| | *US$ millions* | | | | | |
| Bonds and equities | 107.7 | - | 2.8 | (0.3) | 12.8 | 123.0 |
| Investment in STRIPS | 78.9 | (2.0) | 4.3 | - | - | 81.2 |
| **Total Long-term investment** | **186.6** | **(2.0)** | **7.1** | **(0.3)** | **12.8** | **204.2** |

73. The net cash flow from long-term investments was US$4.8 million, comprising of STRIPS that will mature in the next twelve months of US$2.0 million as reported in the Statement of Financial Position and interest received of US$7.1 million and net realized losses of US$0.3 million which are reported in the Statement of Financial Performance. Long-term bonds and equities are treated as available for sale, and under IFRS net unrealized gains of US$12.8 million were transferred to net assets and presented in the Statement of Changes in Net Assets.

## Note 2.7: Property, Plant and Equipment

| | 2008 | Additions | Disposals | Accumulated Depreciation | 2009 |
|---|---|---|---|---|---|
| | *US$ millions* | | | | |
| **Property, plant and equipment** | | | | | |
| Buildings | | | | | |
| Permanent | 3.3 | 0.1 | (0.3) | (0.7) | 2.4 |
| Temporary | 2.0 | 4.5 | - | (1.0) | 5.5 |
| Computer and office equipment | 3.2 | 5.5 | - | (2.6) | 6.1 |
| Office fixtures and fittings | 0.2 | - | - | (0.1) | 0.1 |
| Security and safety equipment | 0.1 | 0.4 | - | (0.1) | 0.4 |
| Telecommunication equipment | 0.4 | 1.0 | - | (0.4) | 1.0 |
| Motor vehicles | 10.5 | 20.8 | (0.6) | (5.4) | 25.3 |
| Workshop equipment | 0.3 | 0.4 | - | (0.2) | 0.5 |
| Leasehold improvements | 1.7 | 1.6 | - | (1.1) | 2.2 |
| Fixed assets under construction | - | 2.2 | - | - | 2.2 |
| **Total property, plant and equipment** | **21.7** | **36.5** | **(0.9)** | **(11.6)** | **45.7** |

74. During 2009, additions to PP&E were for temporary buildings, computer and office equipment, motor vehicles, leasehold improvements as well as fixed assets under construction. Net acquisitions (after disposals) for the year totalled US$35.6 million (US$19.0 million at 31 December 2008). The main reason for the increase was the full application of the accounting policy on PP&E. Additions or reductions in PP&E are reported in the Statement of Financial Position while the depreciation and amortization expenses for the period are reported in the Statement of Financial Performance.

75. Buildings, furniture and fittings, vehicles and computer equipment are capitalized if their cost is greater or equal to the threshold limit set at US$5,000. They are depreciated over the asset's estimated useful life using the straight line method. The threshold level is reviewed periodically.

76. Assets are reviewed annually to determine if there is any impairment in their value. The review that was undertaken in 2009 did not result in any of the PP&E being impaired in value nor has the review of asset disposals indicated that PP&E were disposed due to these assets being unusable or unserviceable.

77. The WFP Headquarters building is not part of PP&E as WFP is a tenant in the building with the rental expenses paid by WFP being reimbursed by the host government.

## Note 2.8: Intangible Assets

| | 2008 | Additions | Disposals | Accumulated Amortization | 2009 |
|---|---|---|---|---|---|
| | | | *US$ millions* | | |
| **Internally developed software** | **30.9** | **16.6** | **-** | **(3.9)** | **43.6** |

78. Intangible assets are capitalized if their cost exceeds the threshold of US$5,000 except for internally developed software where the threshold is US$100,000. The capitalized value of the internally developed software excludes those costs related to research and maintenance.

79. At 31 December 2009, total capitalized costs of the WINGS II project amounted to US$43.6 million, net of accumulated amortization of US$3.9 million. These capitalized costs comprise the system design and realization phase of the WINGS II project. Additions or reductions in intangible assets are reported in the Statement of Financial Position while the amortization expense during the period is reported in the Statement of Financial Performance.

## Note 2.9: Payables and Accruals

| | 2009 | 2008 |
|---|---|---|
| | *US$ millions* | |
| Vendor payables | 143.1 | 182.2 |
| Donor payables | 91.2 | 72.4 |
| Miscellaneous | 9.2 | 14.4 |
| **Subtotal Payables** | **243.5** | **269.0** |
| Accruals | 237.3 | 298.8 |
| **Total Payables and accruals** | **480.8** | **567.8** |

80. Payables to vendors relate to amounts due for goods and services for which invoices have been received.

81. Payables to donors represent balance of unspent contributions for closed projects pending refund or reprogramming.

82. Accruals are liabilities for goods and services that have been received or provided to WFP during the period and which have not been invoiced or formally agreed with the suppliers.

## Note 2.10: Provisions

| | 2009 | 2008 |
|---|---|---|
| | *US$ millions* | |
| Provision for refunds to donors | 21.0 | 29.0 |
| Miscellaneous provisions | 3.4 | - |
| **Total Provisions** | **24.4** | **29.0** |

83. The movements of the provision for refunds to donors during 2009 are as follows:

| | 2008 | Utilization | Increase/ (Decrease) | 2009 |
|---|---|---|---|---|
| | | *US$ millions* | | |
| **Provision for refunds to donors** | **29.0** | **(33.7)** | **25.7** | **21.0** |

84. The increase or decrease in provision for refunds of US$25.7 million reduces monetary contribution revenue as reported in the Statement of Financial Performance. This provision estimates the level of refunds of contributions to projects which are now financially closed and transfers of the donors' cash contribution to their bilateral general accounts. During 2009, refunds made to donors totalled US$33.7 million and represents a reduction in the provision as reported in the Statement of Financial Position.

85. There is no firm relationship between the refunded amounts and the balance of outstanding contributions receivable. Refunds can only take place when there are no receivables outstanding.

86. Miscellaneous provisions are to meet legal liabilities, advances and payments to be made to the deceased and injured WFP staff who were victims of the 2009 bombing in one of WFP country offices. Also included are potential liabilities due to the expulsion of certain NGOs in another WFP operation in which the host Government had decreed for the payment of extraordinary severance payment of former staff of the NGOs which WFP had contracted.

## Note 2.11: Employee Benefits

| | 2009 | 2008 |
|---|---|---|
| | *US$ millions* | |
| **Composition:** | | |
| Current | 23.3 | 16.2 |
| Non-current | 255.4 | 224.3 |
| **Total Employee benefits liabilities** | **278.7** | **240.5** |

| | 2009 | | | 2008 |
|---|---|---|---|---|
| | **Actuarial Valuation** | **WFP Valuation** | **Total** | |
| | ***US$ millions*** | | | |
| Short-term employee benefits | - | 23.3 | 23.3 | 16.2 |
| Post-employment benefits | 208.4 | 0.7 | 209.1 | 190.8 |
| Other long-term employee benefits | 41.6 | 4.7 | 46.3 | 33.5 |
| **Total Employee benefits liabilities** | **250.0** | **28.7** | **278.7** | **240.5** |

## 2.11.1 Valuation of Employee Benefit Liabilities

87. Employee benefit liabilities are determined by professional actuaries or calculated by WFP based on personnel data and past payment experience. At 31 December 2009, total employee benefits liabilities amounted to US$278.7 million, of which US$250.0 million was calculated by the actuaries and US$28.7 million was calculated by WFP (US$218.8 million and US$21.7 million, respectively, at 31 December 2008).

88. Of the total liabilities of US$278.7 million the amount of US$143.4 million has been charged against relevant funds and projects (US$108.1 million at 31 December 2008). The balance of liabilities in the amount of US$135.3 million has been charged against the General Fund.

## 2.11.2 Actuarial Valuations of Post-Employment and Other Separation-Related Benefits

89. Liabilities arising from post-employment benefits and other separation-related benefits are determined by consulting actuaries. These employee benefits are established for staff members who are in the professional category and general service in Headquarters who are covered by FAO Staff Rules and the United Nations Staff Rules.

90. Post-employment benefits and other separation-related benefits liabilities which are calculated by actuaries totalled US$250.0 million at 31 December 2009 net of actuarial gains and losses. In the 2009 valuation, WFP's gross defined benefit obligations totalled US$271.0 million, of which US$229.4 million represents post-employment benefits and US$41.6 million represents other separation-related benefits.

91. Under IPSAS 25, actuarial gains/(losses) for post-employment benefits can be recognized over time using the corridor approach. Under this approach, amounts up to 10 percent of the defined benefit obligations are not recognized as revenue or expense so as to allow gains/(losses) the reasonable possibility of offsetting over time. Gains/(losses) over 10 percent of the defined benefit obligation (DBO) are amortized over the average remaining service of active staff for each benefit. For other separation-related benefits, actuarial gains and losses are recognized immediately and no corridor is applied.

92. In the 2009 valuation of employee benefits liabilities, the actuaries have determined actuarial losses under post-employment benefits and other separation-related benefits in the amounts of US$21.0 million and US$12.8 million, respectively (US$3.2 million for post-employment benefits and US$7.6 million for other separation-related benefits at 31 December 2008).

93. Of the total actuarial gains/(losses) of (US$21.0 million), (US$24.5 million) relates to After-Service Medical Plan, US$2.6 million relates to Separation Payments Scheme, and US$0.9 million pertains to Compensation Plan and Reserve Fund (Note 2.11.5.4). Actuarial gains/(losses) for the After-Service Medical Plan and Separation Payments Scheme exceeded 10 percent of the DBO. Under the corridor method, gains/(losses) over 10 percent will be amortized over the average remaining service of active staff for each benefit. For the After-Service Medical Plan, the average remaining service of active staff is 12.73 years and 13.72 years for the Separation Payments Scheme.

94. The annual expense for employee benefits liabilities as determined by actuaries includes amortization of actuarial gains/(losses).

95. The movements of employee benefits liabilities during 2009 are as follows:

| | 2008 | Utilization | Increase/ (Decrease) | 2009 |
|---|---|---|---|---|
| | *US$ millions* | | | |
| After-Service Medical Plan | 165.1 | (2.2) | 18.9 | 181.8 |
| Separation Payments Scheme | 19.1 | (0.8) | 2.3 | 20.6 |
| Compensation Plan and Reserve Fund | 5.9 | (0.4) | 0.4 | 5.9 |
| Other Separation-Related Benefits | 28.7 | (3.2) | 16.2 | 41.7 |
| **Total Employee benefits liabilities** | **218.8** | **(6.6)** | **37.8** | **250.0** |

## 2.11.3 Short-Term Employee Benefits

96. Short-term employee benefits relate to annual leave and education grant.

## 2.11.4 Post-Employment Benefits

97. Post-employment benefits are defined benefit plans consisting of the After-Service Medical Plan, Separation Payments Scheme and Compensation Plan Reserve Fund.

98. The After-Service Medical Plan is a plan that allows eligible retirees and their eligible family members to participate in the Basic Medical Insurance Plan (BMIP).

99. The Separation Payments Scheme is a plan to fund severance pay for WFP general service staff at the Rome duty station upon separation from service.

100. The Compensation Plan Reserve Fund is a plan that provides compensation to all staff members, employees and dependents in case of death, injury or illness attributable to the performance of official duties.

101. The liabilities include the service costs for 2009 less benefit payments made.

## 2.11.5 Other Long-Term Employee Benefits

102. Other long-term employee benefits consist of home leave travel and other separation-related benefits which comprise accrued leave, death grants, repatriation grants and repatriation travel and removal expenses and are payable when staff are no longer in service.

### 2.11.5.1 Actuarial Assumptions and Methods

103. Each year, WFP reviews and selects assumptions and methods that will be used by the actuaries in the year-end valuation to determine the expense and contribution requirements for WFP's after-service benefit plans (post-employment benefits and other separation-related benefits). For the 2009 valuation, the assumptions and methods used are as described in the following table which also indicates the changes in the assumptions and methods used in comparison with the 2008 valuation.

104. The assumptions and methods adopted for the 2009 actuarial valuation resulted in an increase in the post-employment and other separation-related benefits liabilities in the total amount of US$31.2 million (US$25.5 million at 31 December 2008).

105. Actuarial assumptions are required to be disclosed in the financial statements in accordance with IPSAS 25. In addition, each actuarial assumption is required to be disclosed in absolute terms.

106. The following assumptions and methods have been used to determine the value of post-employment and other separation-related employee liabilities for WFP at 31 December 2009. Assumptions relating only to certain employee benefits are specifically identified:

| | |
|---|---|
| Discount Rate | 5.40 percent for accounting and funding (was 5.70 percent in prior valuation) |
| Medical Cost Increases (ASM only) | 6.00 percent for 2010 (was 7.00 percent in 2009) |
| Expected Return on Assets | Funding - 5.40 percent; Accounting - Not applicable as plans are treated as unfunded |
| Annual Salary Scale | 3.00 percent plus Merit Component |
| Annual Cost of Living Increases | 2.50 percent (minimum death grant benefit for the Staff Compensation Plan remain unchanged) |
| Future Exchange Rates | United Nations spot rates at 31 December 2009 |
| Medical Claims Cost (ASM only) | Average claims in 2010 is US$5,534 for each adult (was US$5,184 in prior valuation). |
| Age Variation of Medical Cost (ASM only) | Average claims of US$5,534 in 2010 for the inactive adult participants (was US$5,184 in prior valuation) |
| Annual Administrative Costs (ASM only) | $155.88 for the Dollar Plan and €143.64 for the Euro Plan |
| Insurer's Retention (ASM only) | 2.45 percent of the claims (was 3.00 percent of the claims in prior valuation) |
| Future Participant Contributions (ASM only) | Accounting and Funding - 26.06 percent |
| Mortality rates | Mortality for all plans matches the 31 December 2007 valuations of the United Nations Joint Staff Pension Fund |
| Disability Rates | Vary according to age and gender and categories of staff |
| Withdrawal Rates | Based on a study of withdrawal rates from 2004 to 2008 for WFP |
| Retirement Rates | Based on a study of withdrawal rates from 2004 to 2008 for WFP |
| Participation (ASM only) | 90 percent of future retirees will elect coverage in the Basic Medical Insurance Plan (BMIP). Based on a study of recent experience for the Rome-based United Nations organizations, 0.1 percent of people covered by the BMIP will withdraw from coverage each year after retirement (in prior valuation, no post-retirement withdrawals were assumed) |
| Medical Plan of Future Retirees (ASM only) | Currently receiving pay in Euro currency – Euro Plan<br>Currently receiving pay in currency other than Euro – Dollar Plan |
| Coverage of Spouses (ASM only) | 80 percent of male and 45 percent of female retirees have a spouse who elects coverage in the Basic Medical Insurance Plan. Wives are assumed to be four years younger than their male spouse. |
| Proportion of Future Deaths and Disablements Attributable to Performance of Official Duties (CPRF only) | 10.00 percent of deaths and 4.00 percent of disablements (was the same in 31 December 2008 valuation) |
| Nature of Disablements (CPRF only) | All disablements are assumed to be total and permanent. |
| Eligibility of benefits offsets (CPRF only) | Deaths or disablements under CPRF are assumed to receive UNJSPF benefits. |
| Benefits excluded due to lack of materiality (CPRF only) | Preparation of remains and funeral expenses; children's benefit for future deaths and disablements, etc. |
| Benefits excluded due to Inclusion in other valuations (CPRF only) | Medical and hospital expenses<br>Return transportation of the deceased and family members |
| Members Receiving Repatriation Benefits (OSRB only) | 80 percent of those who retire or withdraw from service (was 65 percent in prior valuation) |
| Repatriation Grant (OSRB only) | Repatriation benefits were assumed to be payable to 80.00 percent of those staff members who retire or withdraw from service (was 65.00 percent in prior valuation). 80.00 percent of eligible males were assumed to be married and 45.00 percent of female staff members were assumed to be married. |
| Repatriation Travel and Removal Costs (OSRB only) | US$10,700 for unmarried staff and US$15,200 for married staff in 2010, growing with inflation thereafter (in prior valuation was US$9,692 for unmarried staff and US$14,381 for married staff in 2009) |
| Accrued Leave Payable at Separation (OSRB only) | Average accrued leave benefit was assumed to be 26 days' pay (was 20 days' pay in prior valuation). |
| Actuarial Method | After-Service Medical Plan, Separation Payments Scheme, and Staff Compensation Plan: Projected unit credit with an attribution period from the entry on duty date to the date of full eligibility for benefits. (was one-year term cost for Staff Compensation Plan)<br>Other Separation-Related Payments Schemes: For accrued leave, projected unit credit with all liability attributed to past service. For other benefits, included in the valuation, projected unit credit with an attribution period from the entry on duty date to separation. |
| Value of Assets | Funding - Market value<br>Accounting - Plans treated as unfunded |

107. The following tables provide additional information and analysis on employee benefits liabilities calculated by actuaries.

## 2.11.5.2 Reconciliation of Defined Benefit Obligation

| | After-Service Medical Plan | Other Separation-Related Payments Schemes | Separation Payments Scheme | Staff Compensation Plan | Total |
|---|---|---|---|---|---|
| | *US$ millions* | | | | |
| **Net Defined Benefit Obligation at 31 December 2008** | **170.7** | **28.7** | **17.6** | **5.0** | **222.0** |
| Service cost for 2009 | 9.2 | 1.8 | 1.4 | 0.2 | 12.6 |
| Interest cost for 2009 | 9.7 | 1.5 | 0.9 | 0.3 | 12.4 |
| (Actual gross benefit payments for 2009) | (3.1) | (3.2) | (0.9) | (0.4) | (7.6) |
| Participant contributions | 0.9 | - | - | - | 0.9 |
| Exchange rate movements | 1.2 | - | 0.1 | - | 1.3 |
| Other actuarial (gain)/loss | 17.8 | 12.8 | (1.1) | (0.1) | 29.4 |
| **Defined benefit obligation at 31 December 2009** | **206.4** | **41.6** | **18.0** | **5.0** | **271.0** |

## 2.11.5.3 Annual Expense for Calendar Year 2009

| | After-Service Medical Plan | Other Separation-Related Payments Schemes | Separation Payments Scheme | Staff Compensation Plan | Total |
|---|---|---|---|---|---|
| | *US$ millions* | | | | |
| Service cost | 9.2 | 1.8 | 1.4 | 0.2 | 12.6 |
| Interest cost | 9.7 | 1.5 | 0.9 | 0.3 | 12.4 |
| (Gain)/loss amortization | - | 12.8 | - | - | 12.8 |
| **Total Expense recognized in 2009** | **18.9** | **16.1** | **2.3** | **0.5** | **37.8** |

## 2.11.5.4 Reconciliation of Present Value of Defined Benefit Obligation

| | After-Service Medical Plan | Other Separation-Related Payments Schemes | Separation Payments Scheme | Staff Compensation Plan | Total |
|---|---|---|---|---|---|
| | *US$ millions* | | | | |
| **Defined benefit obligation** | | | | | |
| Inactive | 76.6 | - | - | 3.9 | 80.5 |
| Active | 129.8 | 41.6 | 18.0 | 1.1 | 190.5 |
| **Total** | **206.4** | **41.6** | **18.0** | **5.0** | **271.0** |
| (Surplus)/deficit | 206.4 | 41.6 | 18.0 | 5.0 | 271.0 |
| Unrecognized gain/(loss) | (24.5) | - | 2.6 | 0.9 | (21.0) |
| **Net Balance sheet (asset)/liability** | **181.9** | **41.6** | **20.6** | **5.9** | **250.0** |

### 2.11.5.5 After-Service Medical Plan - Sensitivity Analysis

108. Three of the principal assumptions in the valuation of the After-Service Medical Plan are: i) the rate at which medical costs are expected to increase in the future; ii) the exchange rate between the US dollar and the Euro; and iii) the discount rate used to determine the present value of benefits that will be paid from the plan in the future.

109. In the 2009 valuation, it was assumed that medical costs will increase at 6.00 percent for 2010 and an ultimate rate of 5.00 percent for subsequent years. It was also assumed that the future exchange rates between the Euro and US dollar will average about 1.443 US dollars per Euro, which was the spot United Nations operational rate of exchange at 31 December 2009. Further assumed was a discount rate of 5.40 percent, the spot discount rate at 31 December 2009.

110. A sensitivity analysis was undertaken to determine the impact of the above assumptions on the liability and service cost under IPSAS 25. The results indicate that claims costs and premium rates would increase by the same percentage as the medical inflation, but that all other assumptions would be unaffected. For the exchange rate, the sensitivity analysis reflects the impact of a 10-cent increase in the value of the Euro in US dollars. For medical inflation and the discount rates, the sensitivity analysis reflects the impact of 1.00 percent changes.

111. For the liability sensitivity analysis, an exchange rate of 1.443 US dollars per Euro, discount rate of 5.40 percent and inflation rate of 5.00 percent per year resulted in a gross defined benefit obligation of US$206.4 million. For the service cost sensitivity analysis and using the same principal assumptions used for the liability sensitivity analysis, the service cost for 2010 was calculated at US$13.2 million.

### 2.11.5.6 Expected Costs during 2010

112. The expected contribution of WFP in 2010 to the defined benefits plans is US$7.7 million which is determined based on expected benefit payments for that year.

### 2.11.6 United Nations Joint Staff Pension Fund

113. WFP is a member organization participating in the United Nations Joint Staff Pension Fund (UNJSPF), which was established by the United Nations General Assembly to provide retirement, death, disability and related benefits. The pension fund is a funded multi-employer defined benefit plan. As specified by Article 3 (b) of the Regulations of the Fund, membership in the Fund shall be open to the specialized agencies and to any other international, intergovernmental organization which participates in the common system of salaries, allowances and other conditions of service of the United Nations and the specialized agencies.

114. The actuarial method adopted for the UNJSPF is the Open Group Aggregate method to determine whether the present and estimated future assets of the Fund will be sufficient to meet its present and estimated future liabilities, using various sets of assumptions as to future economic and demographic developments. The actuarial study is carried out at least once every three years; a review of the 2008 annual report of the UNJSPF reveals that an actuarial valuation has been carried out every two years from as early as 1997. The United Nations Board of Auditors carries out an annual audit of the UNJSPF and

reports to the United Nations Joint Staff Pension Board on the audit every two years. The most recent actuarial valuation at the time of preparing these accounts was the one carried out at 31 December 2007. The results of the valuation carried out at 31 December 2009 will be available in mid-2010.

115. Paragraph 50 of the 2007 actuarial valuation indicates that in order to assist the UNJSPF Board in its assessment of the position of the Fund on a current rather than a projected basis, a calculation was made of the actuarial value of accrued benefits on the valuation date (i.e. the liabilities of the Fund for the benefits which have already been earned by present active and retired participants). This value represents the amount of assets which the Fund would have to have on hand in order to meet its present obligations. These obligations consist of: (i) the continuation of the existing pensions to current pensioners and beneficiaries, and (ii) the establishment of the necessary reserve to meet benefit payments on behalf of present participants on the assumption that they would terminate employment on the valuation date and select the available option (as between a withdrawal settlement, a deferred retirement benefit, an early retirement benefit, or a retirement benefit) most valuable to them (i.e. with the highest actuarial cost).

116. At 31 December 2007, and as outlined under paragraph 55 of the same actuarial valuation report, the funded ratio assuming zero pension adjustments was 146.9 percent while the funded ratio that take rates of pension adjustment into account, the ratios based on a real interest rate (i.e. net of nominal interest assumption and assumed rate of pension adjustment) of 3.5 percent was 95.3 percent.

117. The UNJSPF publishes quarterly reports on its investments and these can be viewed by visiting the UNJSPF at www.unjspf.org.

118. WFP's financial obligation to the UNJSPF consists of its mandated contribution at the rate established by the United Nations General Assembly, currently at 7.9 percent for the participants and 15.8 percent for member organizations, respectively, of the applicable pensionable remuneration, together with its share of any actuarial deficiency payments under Article 26 of the Regulations of the Pension Fund.

119. Such deficiency payments are payable only if and when the United Nations General Assembly has invoked the provision of Article 26, following determination that there is a requirement for deficiency payments based on an assessment of the actuarial sufficiency of the Pension Fund as of the valuation date. Each member organization shall contribute to this deficiency an amount proportionate to the total contributions which each paid during the three years preceding the valuation date. At the time of this report, the United Nations General Assembly had not invoked this provision.

120. The plan exposes participating organizations to actuarial risks associated with the current and former employees of other organizations, with the result that there is no consistent and reliable basis for allocating the obligation, or plan assets to participating organizations in the plan. WFP, as well as other participating organizations, is not in a position to identify its share of the underlying financial position and performance of the plan with sufficient reliability for accounting purposes, and hence has accounted for this plan as if it were a defined contribution plan in line with IPSAS 25, Employee Benefits.

121. During 2009, contributions paid to UNJSPF amounted to US$54.7 million. Expected contributions due in 2010 are US$57.1 million (US$49.3 million and US$51.3 million, respectively, at 31 December 2008).

### 2.11.7 Social Security Arrangements for Employees under Service Contracts

122. WFP employees under the service contracts are entitled to social security based on local conditions and norms. WFP, however, has not undertaken any global arrangement for social security under service contracts. Social security arrangements can either be obtained from the national security system, private local schemes or as cash compensation for own scheme. The provision of proper social security in line with local labour legislation and practice is a key requirement of the service contract. Service contract holders are not WFP staff members and are not covered by the FAO and United Nations Staff Rules and Regulations.

## Note 2.12: Long-Term Loan

| | 2009 | 2008 |
|---|---|---|
| | *US$ millions* | |
| **Long-term loan** | **111.7** | **111.2** |

123. In December 2000, an agreement was reached between a major donor and WFP regarding a scheme to facilitate the provision of food assistance to two country projects. Under the scheme, the donor gave a contribution in cash of US$164.1 million, of which US$106.0 million was used to purchase food commodities against a long-term loan contract with a government agency of the donor country.

124. The loan is payable over 30 years and interest on the loan is at the rate of two percent per year for the first ten years and three percent per year on the declining balance each year thereafter. Investment in US Treasury STRIPS (Note 2.6) acquired in 2001 are held to maturity up to 2031 for the payment of interest and principal of the commodity loan of US$106.0 million.

125. The loan of US$106.0 million is reflected at amortized cost using the effective interest rate of 2.44 percent. At 31 December 2009, amortized cost was US$111.7 million (US$111.2 million at 31 December 2008). Interest paid each year is US$2.1 million.

126. Interest expense during 2009 totalled US$2.7 million (US$2.7 million at 31 December 2008) as reflected in the Statement of Financial Performance, of which US$2.1 million represents the annual interest payable in May of each year and US$0.6 million represents the amortized cost resulting from the recognition of the long-term loan to its net present value.

127. In the Statement of Cash Flow, interest expense paid during the year in the amount of US$2.1 million is presented under financing activities while amortized interest of US$0.6 is presented under operating activities.

## Note 2.13: Financial Instruments

### 2.13.1 Nature of Financial Instruments

128. Details of the significant accounting policies and methods adopted, including the criteria for recognition and derecognition, the basis of measurement and the basis on which gains and losses are recognized in respect of each class of financial asset and financial liability are set out in Note 1.

129. The financial assets of WFP are categorized as follows:

| | 2009 | 2008 |
|---|---|---|
| | *US$ millions* | |
| Financial assets at fair value through surplus or deficit | 580.1 | 458.0 |
| Held to maturity investments | 83.3 | 81.0 |
| Loans and receivables | 3 057.2 | 2 900.9 |
| Available for sale financial assets | 123.0 | 107.7 |
| **Subtotal** | **3 843.6** | **3 547.6** |
| Non-financial assets | 1 110.1 | 1 301.0 |
| **Total** | **4 953.7** | **4 848.6** |

130. All material financial liabilities are stated at amortized cost.

### 2.13.2 Credit Risk

131. WFP's credit risk is spread widely and WFP's risk management policies limit the amount of credit exposure to any one counterparty and include minimum credit quality guidelines. The short-term investments have credit quality at year end of AAA/AA+ and the long-term investments have credit quality at year end of AA+.

132. Credit risk and liquidity risk associated with cash and cash equivalents is minimized substantially by ensuring that these financial assets are placed in highly liquid and diversified money market funds with AAA credit ratings and/or with major financial institutions that have been accorded strong investment grade ratings by a primary rating agency and/or with other creditworthy counterparties.

133. Contributions receivable comprise primarily amounts due from sovereign nations. Details of contributions receivable, including allowances for reductions in contribution revenue and doubtful accounts, are provided in Note 2.3.

### 2.13.3 Interest Rate Risk

134. WFP is exposed to interest rate risk through short-term investments and long-term bonds. In 2009, the effective interest rates of these two investment portfolios were 1.46 percent and 3.00 percent, respectively. A measurement of interest rate sensitivity indicates that the effective duration is 0.49 years for the short-term investments and 5.1 years for the long-term bonds. Fixed income derivatives are used by external investment managers to manage interest rate risk under strict investment guidelines.

### 2.13.4 Foreign Currency Risk

135. At 31 December 2009, 85 percent of cash, cash equivalent and investments are denominated in the US dollar base currency and 13 percent are denominated in Euros (94 percent in the US dollar base currency and 6 percent in Euros at 31 December 2008). Non-US dollar holdings have the primary objective of supporting operating activities. In addition, 80 percent of contributions receivable are denominated in the US dollar base currency, 11 percent are denominated in Euros and 9 percent are denominated in other currencies (84 percent in the US dollar base currency, 12 percent in Euros and 4 percent in other currencies at 31 December 2008).

136. Foreign exchange forward contracts are used to hedge the Euro versus US dollar exchange exposure on Programme Support and Administrative staff costs incurred at Headquarters. At its annual session in 2009, the Board approved (decision 2009/EB.A/9) for WFP to continue hedging Euro expenditure for 2010 and 2011 by entering into 24 foreign exchange forward contracts to buy Euro 5.0 million each month at fixed rates versus the US dollar from mid-2009. At 31 December 2009, the 24 contracts have a notional value of US$169.5 million and a mark to market unrealised gain of US$3.2 million using the forward rate at 31 December 2009.

### 2.13.5 Price Risk

137. WFP is subject to market price risk through equities held as part of the long-term investments. The equity investments track the MSCI World Index, a recognized index of stocks of all developed world markets.

## Note 2.14: Fund Balances and Reserves

| | 2009 | | | | | 2008 |
|---|---|---|---|---|---|---|
| | Programme Category Funds (Fund Balance) | Bilateral Operations and Trust Funds (Fund Balance) | General Fund and Special Accounts | | Total | |
| | | | (Fund Balance) | Reserves | | |
| | *US$ millions* | | | | | |
| **Opening balance at 01 January** | **3 055.4** | **321.0** | **245.2** | **278.5** | **3 900.1** | **2 516.0** |
| **Surplus/(deficit) for the period** | **(135.8)** | **(33.8)** | **314.8** | **-** | **145.2** | **1 389.7** |
| **Subtotal** | **2 919.6** | **287.2** | **560.0** | **278.5** | **4 045.3** | **3 905.7** |
| **Movements during the period**: | | | | | | |
| Advances to projects | 144.2 | - | 3.6 | (147.8) | - | - |
| Repayments by projects | (98.2) | - | (1.8) | 100.0 | - | - |
| Approved EB Allocations | - | - | 38.9 | (38.9) | - | - |
| Replenishments | - | - | (52.7) | 52.7 | - | - |
| Surplus of ISC revenue over PSA expenses | - | - | (21.6) | 21.6 | - | - |
| Transfers between funds | 77.1 | (0.2) | (76.9) | - | - | - |
| Net unrealized gains (losses) on long-term investments | - | - | 12.8 | - | 12.8 | (5.6) |
| **Total movements during the period** | **123.1** | **(0.2)** | **(97.7)** | **(12.4)** | **12.8** | **(5.6)** |
| **Closing balance at 31 December** | **3 042.7** | **287.0** | **462.3** | **266.1** | **4 058.1** | **3 900.1** |

138. Fund balances represent the unexpended portion of contributions that are intended to be utilized in future operational requirements of the Programme. These are WFP's residual interest in the assets after deducting all its liabilities.

139. There are cash contributions provided by donors which, at the time of confirmation, have not been designated to a specific programme category or bilateral projects. These contributions have been designated as multilateral and unallocated funds and are reported under the General Fund. When these contributions are allocated to specific projects, the resulting expenses are reflected in the appropriate programme category or bilateral project funds.

140. Replenishments represent donor contributions which are specifically directed to the IRA.

| | 2009 | | | | | |
|---|---|---|---|---|---|---|
| | 2.14.1 Operational Reserve (OR) | 2.14.2 Immediate Response Account (IRA) | 2.14.3 DSC/ODOC Advance Facility (DSCAF) | 2.14.4 PSA Equalization Account (PSAEA) | Total | 2008 |
| | *US$ millions* | | | | | |
| **Opening balance at 01 January** | **57.0** | **44.6** | **7.6** | **169.3** | **278.5** | **140.1** |
| Advances to projects | - | (136.6) | (11.2) | | (147.8) | (183.7) |
| Repayments by projects | - | 86.4 | 13.6 | - | 100.0 | 119.6 |
| Approved EB Allocations | - | - | - | (38.9) | (38.9) | - |
| Replenishments | - | 52.7 | - | - | 52.7 | 65.9 |
| Surplus of ISC revenue over PSA expenses | - | - | - | 21.6 | 21.6 | 136.6 |
| **Closing balance at 31 December 2009** | **57.0** | **47.1** | **10.0** | **152.0** | **266.1** | **278.5** |

141. Reserves are established by the Board as facilities for funding and/or financing specific activities under specific circumstances. There are currently 4 active reserves: i) Operational Reserve; ii) Immediate Response Account; iii) Direct Support Cost Advance Facility; and the iv) PSA Equalization Account. Movements in the reserves are charged directly against the reserve accounts.

## 2.14.1 Operational Reserve

142. Financial Regulation 10.5 calls for the maintenance of an Operational Reserve for the purpose of ensuring the continuity of operations in the event of a temporary shortfall of resources. The Operational Reserve is established at a level of US$57.0 million. During 2009, there were no activities affecting the Operational Reserve.

## 2.14.2 Immediate Response Account

143. The Immediate Response Account (IRA) was established as a flexible resource facility to enable WFP to respond quickly to emergency needs for food and for non-food-related purchase and delivery costs.

144. In 2009, the IRA received US$52.7 million in replenishments. Advances made to projects totalled US$136.6 million of which US$86.4 million was repaid during 2009. The IRA balance at 31 December 2009 is US$47.1 million which is below the target level of US$70.0 million. Outstanding advances to projects made by the IRA at 31 December 2009 totalled US$164.4 million.

### 2.14.3 Direct Support Cost Advance Facility

145. The purpose of the Direct Support Cost Advance Facility (DSCAF) is to ensure continued financing of DSC and ODOC pending confirmation of contributions. DSCAF approved level is US$35.9 million.

146. During 2009, advances to projects and the Global Vehicle Leasing Programme amounted to US$11.2 million. Repayments by the projects in 2009 were US$13.6 million. The DSCAF balance at 31 December 2009 is US$10.0 million. Outstanding advances to projects made by the DSCAF at 31 December 2009 totalled US$25.0 million.

### 2.14.4 PSA Equalization Account

147. The PSAEA is a reserve set up to record any differences between Indirect Support Costs revenue and PSA expenses for the financial period.

148. During the Second Regular Session of the Board in October 2008, the Board approved one-time capacity investments from PSAEA (decision 2008/EB.2/7 iii)) totalling US$40.8 million of which US$38.9 million was allocated from PSAEA in 2009. The balance remains unallocated at the end of 2009.

149. Of the total amount of US$38.9 million that has been allocated from the PSAEA, US$22.5 million was allocated to the Security Fund meant for the required on-site support, measures to ensure premises compliance, office relocation (where needed) and security equipment. The balance pertains to allocations made to cluster leadership, learning and development, information and communications technology (ICT) support and extension of the IPSAS project to ensure that the new systems introduced by WINGS II, in particular for inventories and fixed assets, meet IPSAS requirements, and that the financial statements can be generated by the new system.

150. The surplus of ISC revenue over PSA expenses totalling US$21.6 million was transferred to PSAEA. The PSAEA balance at 31 December 2009 is US$152.0 million.

# NOTE 3: REVENUE

| | | 2009 | 2008 |
|---|---|---|---|
| | | *US$ (millions)* | |
| 3.1 | **Monetary contributions** | | |
| | Contributions for direct costs | 3 242.7 | 3 986.9 |
| | ISC contributions | 265.1 | 317.0 |
| | **Subtotal** | **3 507.8** | **4 303.9** |
| | **Less:** | | |
| | Refunds, reprogrammes and reductions in contribution revenue | (62.8) | (153.0) |
| | **Total Monetary contributions** | **3 445.0** | **4 150.9** |
| 3.2 | **In-kind contributions** | | |
| | Commodities in-kind contributions | 751.0 | 908.4 |
| | Service in-kind contributions | 13.1 | 9.6 |
| | **Subtotal** | **764.1** | **918.0** |
| | **Less:** | | |
| | Reductions in contribution revenue | (3.9) | (30.9) |
| | **Total In-kind contributions** | **760.2** | **887.1** |
| 3.3 | **Currency exchange differences*** | **44.2** | **(21.9)** |
| 3.4 | **Return on investments*** | | |
| | Net realized (losses) on investments | (23.5) | (6.3) |
| | Net unrealized gains/(losses) on investments | 37.3 | (51.4) |
| | Interest earned | 24.9 | 48.1 |
| | **Total Return on investments** | **38.7** | **(9.6)** |
| 3.5 | **Other revenue** | **85.2** | **76.7** |
| | **Total Revenue** | **4 373.3** | **5 083.2** |

* These items were presented as expenses in the 2008 Financial Statements.

151. Contribution revenue is adjusted by changes in the levels of the allowance for reductions in contribution revenue (Note 2.3) and in the level of the provisions for refunds to donors (Note 2.10). Actual refunds and reductions in contribution revenue are made against specific contributions.

152. In-kind contributions represent confirmed contributions of food commodities or services during the period.

153. Other revenue relates mainly to special accounts activities including air operations, provision of goods and services by United Nations Humanitarian Response Depot, Field Emergency Support Office, net income from third-party agreements as well as proceeds from sale of damaged commodities and other unserviceable properties.

# NOTE 4: EXPENSES

| | | 2009 | 2008 |
|---|---|---|---|
| | | *US$ (millions)* | |
| 4.1 | **Commodities distributed** | **2 380.4** | **2 198.1** |
| 4.2 | **Distribution and related services** | **749.6** | **551.1** |
| 4.3 | **Wages, salaries, employee benefits and other staff costs** | | |
| | International and national staff | 518.4 | 405.7 |
| | Consultants | 43.8 | 43.4 |
| | United Nations volunteers | 5.7 | 5.5 |
| | Temporary staff | 24.1 | 19.0 |
| | Other personnel costs | 25.8 | 81.5 |
| | **Total Wages, salaries, employee benefits and other staff costs** | **617.8** | **555.1** |
| 4.4 | **Supplies, consumables and other running costs** | | |
| | Telecommunications and Information Technology | 17.8 | 14.4 |
| | Equipment | 35.3 | 23.4 |
| | Office supplies and consumables | 31.2 | 55.4 |
| | Utilities | 6.7 | 5.0 |
| | Vehicle maintenance and running costs | 24.6 | 16.4 |
| | **Total Supplies, consumables and other running costs** | **115.6** | **114.6** |
| 4.5 | **Contracted and other services** | | |
| | Air operations | 115.1 | 95.3 |
| | ODOC contracted services | 40.9 | 62.5 |
| | Other contracted services | 77.2 | 28.2 |
| | Telecommunications/IT related services | 29.7 | 20.5 |
| | Security and other services | 19.3 | 13.5 |
| | Leases | 21.3 | 17.4 |
| | **Total Contracted and other services** | **303.5** | **237.4** |
| 4.6 | **Finance Costs** | **2.7** | **2.7** |
| 4.7 | **Depreciation and amortization** | **12.5** | **2.4** |
| 4.8 | **Other expenses** | | |
| | Maintenance services | 7.0 | 3.6 |
| | Insurance | 7.4 | 3.7 |
| | Bank charges/investment manager and custodian fees | 2.7 | 3.1 |
| | Doubtful accounts and impairment | 9.9 | 0.7 |
| | Trainings and meetings | 10.2 | 7.0 |
| | Other | 8.8 | 14.0 |
| | **Total Other expenses** | **46.0** | **32.1** |
| | **Total Expenses** | **4 228.1** | **3 693.5** |

154. During 2009, food commodities and non-food items distributed totalled US$2,380.4 million, as reported in the Statement of Financial Performance (US$2,198.1 million for the year ended 31 December 2008).

155. Commodities distributed include cost of commodities as well as transport and related costs between the country in which WFP takes possession and the recipient country. Included in the cost of commodities distributed are post-delivery losses of US$9.4 million (US$11. 4 million for the year ended 31 December 2008) (Note 9).

156. During 2009, cash and vouchers distributed totalled US$15.1 million.

157. Distribution and related services represent cost of moving commodities in-country up to and including final distribution.

158. Wages, salaries, employee benefits and other staff costs are for WFP staff, consultants and service contracts. Other personnel costs include employee and consultant travel, training and staff workshops, and incentives.

159. Supplies, consumables and other running costs used are cost of goods and services used for both direct project implementation and administration and support.

160. Other expenses of US$46.0 million include maintenance of facilities, insurance, meeting related costs, allowances for doubtful accounts and inventory impairment.

## NOTE 5: STATEMENT OF CASH FLOW

161. Cash flows from operating activities are not adjusted for donations of commodities-in-kind or services-in-kind as these have no impact on cash movements. Cash flows from investing activities are shown net of items where the turnover is rapid, the amounts are large and the maturities are short.

## NOTE 6: STATEMENT OF COMPARISON OF BUDGET AND ACTUAL AMOUNTS

162. WFP's budget and financial statements are prepared using a different basis. The Statement of Financial Position, Statement of Financial Performance, Statement of Changes in Net Assets and Statement of Cash Flow are prepared on a full accrual basis using a classification based on the nature of expenses in the Statement of Financial Performance, whereas the Statement of Comparison of Budget and Actual Amounts is prepared on a commitment accounting basis.

163. As required under IPSAS 24, the actual amounts presented on a comparable basis to the budget shall, where the financial statements and the budget are not prepared on a comparable basis, be reconciled to the actual amounts presented in the financial statements, identifying separately any basis, timing and entity differences. There may also be differences in formats and classification schemes adopted for presentation of financial statements and the budget.

164. Explanations of material differences between the original budget and final budget and final budget and the actual amounts are presented under the Financial and Budget Performance Highlights section of the Executive Director's Statement and form part of these financial statements.

165. Basis differences occur when the approved budget is prepared on a basis other than the accounting basis. For WFP, the budget is prepared on the commitment basis and the financial statements are prepared on the accrual basis.

166. Timing differences occur when the budget period differs from the reporting period reflected in the financial statements. There are no timing differences for WFP for purposes of comparison of budget and actual amounts.

167. Entity differences occur when the budget omits programmes or entities that are part of the entity for which the financial statements are prepared.

168. Presentation differences are due to differences in the format and classification schemes adopted for presentation of Statement of Cash Flow and Statement of Comparison of Budget and Actual Amounts.

169. Reconciliation between the actual amounts on a comparable basis in the Statement of Comparison of Budget and Actual Amounts (Statement V) and the actual amounts in the Statement of Cash Flow (Statement IV) for the year ended 31 December 2009 is presented below:

| | 2009 | | | |
|---|---|---|---|---|
| | **Operating** | **Investing** | **Financing** | **Total** |
| | *US$ millions* | | | |
| **Actual amount on comparable basis (Statement V)** | **(3 783.8)** | **-** | **-** | **(3 783.8)** |
| Basis differences | 330.3 | (141.0) | (2.1) | 187.2 |
| Presentation differences | 3 959.8 | - | - | 3 959.8 |
| Entity differences | (173.3) | - | - | (173.3) |
| **Actual amount in the Statement of Cash Flow (Statement IV)** | **333.0** | **(141.0)** | **(2.1)** | **189.9** |

170. Open commitments including open purchase orders and net cash flows from operating, investing and financing activities are presented as Basis differences. Revenue and non-fund relevant expenses that do not form part of the Statement of Comparison of Budget and Actual Amounts are reflected as Presentation differences. Under entity differences, bilateral operations and trust funds form part of WFP activities and are reported in the financial statements although they are excluded from the budgetary process.

171. Budget amounts have been presented on a functional classification basis in accordance with the 2008–2009 Biennial Management Plan which presents a breakdown of the budget by year for purposes of the above comparison.

# NOTE 7: SEGMENT REPORTING

## Note 7.1: Statement of Financial Position by Segment

| | 2009 | | | | | 2008 |
|---|---|---|---|---|---|---|
| | Programme Category Funds | General Fund and Special Accounts | Bilateral Operations and Trust Funds | Inter-Segment Transactions | Total | |
| | (US$ millions) | | | | | |
| **ASSETS** | | | | | | |
| **Current assets** | | | | | | |
| Cash and short-term investments | 969.4 | 561.8 | 213.2 | - | 1 744.4 | 1 432.4 |
| Contributions receivable | 1 721.6 | 74.3 | 100.8 | - | 1 896.7 | 1 991.2 |
| Inventories | 705.7 | 18.9 | 13.8 | - | 738.4 | 1 021.8 |
| Other receivables | 61.5 | 171.4 | 3.1 | (104.2) | 131.8 | 127.9 |
| | **3 458.2** | **826.4** | **330.9** | **(104.2)** | **4 511.3** | **4 573.3** |
| **Non-current assets** | | | | | | |
| Contributions receivable | 33.1 | 95.8 | 20.0 | - | 148.9 | 39.1 |
| Long-term investments | - | 204.2 | - | - | 204.2 | 186.6 |
| Property, plant and equipment | 27.5 | 17.5 | 0.7 | - | 45.7 | 18.7 |
| Intangible assets | - | 43.6 | - | - | 43.6 | 30.9 |
| | **60.6** | **361.1** | **20.7** | **-** | **442.4** | **275.3** |
| **TOTAL ASSETS** | **3 518.8** | **1 187.5** | **351.6** | **(104.2)** | **4 953.7** | **4 848.6** |
| **LIABILITIES** | | | | | | |
| **Current liabilities** | | | | | | |
| Payable and accruals | 459.1 | 66.2 | 59.7 | (104.2) | 480.8 | 567.8 |
| Provisions | 17.0 | 2.5 | 4.9 | - | 24.4 | 29.0 |
| Employee benefits | - | 23.3 | - | - | 23.3 | 16.2 |
| | **476.1** | **92.0** | **64.6** | **(104.2)** | **528.5** | **613.0** |
| **Non-current liabilities** | | | | | | |
| Employee benefits | - | 255.4 | - | - | 255.4 | 224.3 |
| Long-term loan | - | 111.7 | - | - | 111.7 | 111.2 |
| | **-** | **367.1** | **-** | **-** | **367.1** | **335.5** |
| **TOTAL LIABILITIES** | **476.1** | **459.1** | **64.6** | **(104.2)** | **895.6** | **948.5** |
| **NET ASSETS** | **3 042.7** | **728.4** | **287.0** | **-** | **4 058.1** | **3 900.1** |
| **FUND BALANCES AND RESERVES** | | | | | | |
| Fund balances | 3 042.7 | 462.3 | 287.0 | - | 3 792.0 | 3 621.6 |
| Reserves | - | 266.1 | - | - | 266.1 | 278.5 |
| **TOTAL FUND BALANCES AND RESERVES, 2009** | **3 042.7** | **728.4** | **287.0** | **-** | **4 058.1** | **3 900.1** |
| **TOTAL FUND BALANCES AND RESERVES, 2008** | **3 055.4** | **523.7** | **321.0** | **-** | **3 900.1** | **-** |

## Note 7.2: Statement of Financial Performance by segment

| | 2009 | | | | | 2008 |
|---|---|---|---|---|---|---|
| | Programme Category Funds | General Fund and Special Accounts | Bilateral Operations and Trust Funds | Inter-Segment Transactions | Total | |
| | *(US$ millions)* | | | | | |
| **REVENUE** | | | | | | |
| Monetary contributions | 2 729.8 | 581.1 | 134.1 | - | 3 445.0 | 4 150.9 |
| In-kind contributions | 754.7 | 4.0 | 1.5 | - | 760.2 | 887.1 |
| Currency exchange differences | 13.3 | 28.5 | 2.4 | - | 44.2 | (21.9) |
| Return on investments | - | 37.3 | 1.4 | - | 38.7 | (9.6) |
| Other revenue | 58.6 | 85.3 | 0.1 | (58.8) | 85.2 | 76.7 |
| **TOTAL REVENUE** | **3 556.4** | **736.2** | **139.5** | **(58.8)** | **4 373.3** | **5 083.2** |
| **EXPENSES** | | | | | | |
| Commodities distributed | 2 262.2 | 8.9 | 109.4 | (0.1) | 2 380.4 | 2 198.1 |
| Distribution and related services | 747.2 | 0.1 | 5.7 | (3.4) | 749.6 | 551.1 |
| Wages, salaries, employee benefits and other staff costs | 325.8 | 266.5 | 36.4 | (10.9) | 617.8 | 555.1 |
| Supplies, consumables and other running costs | 84.9 | 36.2 | 7.7 | (13.2) | 115.6 | 114.6 |
| Contracted and other services | 224.3 | 78.0 | 9.8 | (8.6) | 303.5 | 237.4 |
| Finance costs | - | 2.7 | - | - | 2.7 | 2.7 |
| Depreciation and amortization | 5.3 | 7.0 | 0.2 | - | 12.5 | 2.4 |
| Other expenses | 42.5 | 22.0 | 4.1 | (22.6) | 46.0 | 32.1 |
| **TOTAL EXPENSES** | **3 692.2** | **421.4** | **173.3** | **(58.8)** | **4 228.1** | **3 693.5** |
| **SURPLUS (DEFICIT) FOR THE PERIOD, 2009** | **(135.8)** | **314.8** | **(33.8)** | **-** | **145.2** | **1 389.7** |
| **SURPLUS FOR THE PERIOD, 2008** | **669.1** | **637.9** | **82.7** | **-** | **1 389.7** | |

172. Cash and cash equivalents and short-term investments are presented as separate line items on the face of the Statement of Financial Position and presented together under segment reporting. The below table shows a reconciliation of the amounts reported in the Statement of Financial Position and segment reporting in line with IPSAS requirements.

| | 2009 | 2008 |
|---|---|---|
| | *US$ millions* | |
| Cash and cash equivalents | 1 162.2 | 972.3 |
| Short-term investments | 582.2 | 460.1 |
| **Total cash and cash equivalents and short-term investments** | **1 744.4** | **1 432.4** |

173. Some internal activities lead to accounting transactions that create inter-segment revenue and expense balances in the financial statements. Inter-segment transactions are reflected in the above tables to accurately present these financial statements.

174. During the year ended 31 December 2009, activities have created inter-segment balances in the amount of US$104.2 million in the Statement of Financial Position and US$58.8 million in the Statement of Financial Performance.

175. Of the total PP&E of US$45.7 million at the end of 2009 (US$18.7 million at 31 December 2008), US$27.0 million relates to acquisitions, net of disposals (US$16.6 million at 31 December 2008).

176. Contributions for operations and other activities are recognized as revenue when these contributions are confirmed in writing. Expenses are incurred gradually over time according to projects and beneficiaries needs.

177. Fund balances under Programme Category Funds and Bilateral Operations and Trust Funds represent the unexpended portion of contributions that are carried forward to be utilized in future operational requirements of the Programme.

## NOTE 8: COMMITMENTS AND CONTINGENCIES

### Note 8.1: Commitments

#### 8.1.1 Property Leases

| | 2009 | 2008 |
|---|---|---|
| | *US$ millions* | |
| Obligations for property leases: | | |
| Under 1 year | 23.2 | 18.2 |
| 1 – 5 years | 35.9 | 35.7 |
| Beyond 5 years | 4.8 | 1.9 |
| **Total Property leases obligations** | **63.9** | **55.8** |

178. At the end of 2009, property lease obligations for the WFP Headquarters building in Rome represent 35 percent of the total obligations under the 1 year category and 46 percent under the 1 to 5 years category (48 percent and 64 percent, respectively, at 31 December 2008). The lease can be renewed at WFP's option. Costs incurred in leasing the Headquarters building are reimbursed by the host government.

179. Costs related to non-property leases amounted to US$0.2 million (US$0.2 million at 31 December 2008). The non-property leases represent rental of photocopiers.

### 8.1.2 Commitments

180. At 31 December 2009, WFP had commitments for the acquisition of food commodities, transport, services, non-food items and capital commitments contracted but not delivered as follows:

| | 2009 | 2008 |
|---|---|---|
| | *US$ millions* | |
| Food commodities | 455.2 | 401.0 |
| Non-food items | 44.2 | 20.9 |
| Transportation | 120.6 | 87.8 |
| Services | 93.9 | 65.0 |
| Capital commitments | 7.3 | 16.5 |
| **Total Open commitments** | **721.2** | **591.2** |

181. Under IPSAS 1 on accrual accounting and on the basis of the delivery principle, commitments for future expenses are not recognized in the financial statements. Such commitments will be settled from the unexpended portion of contributions after receipt of the related goods or services.

## Note 8.2: Legal or Contingent Liabilities and Contingent Assets

182. There are no material contingent liabilities arising from legal actions and claims that are likely to result in a significant liability to WFP.

183. In 2005, cases of fraud were discovered in the WFP Regional Bureau in the Republic of South Africa. The loss was estimated at US$6.0 million. Arbitration proceedings were initiated by WFP against two staff members to recover the bulk of the funds. On 12 January 2010, the Arbitral Tribunal issued a default Award in favour of WFP on all claims. The total award amounts to approximately US$6.0 million, plus interest and costs. WFP is working with its local counsel in the Republic of South Africa towards enforcement of the arbitral award.

# NOTE 9: LOSSES, EX-GRATIA PAYMENTS AND WRITE-OFFS

184. WFP Financial Regulation 12.3 provides that “The Executive Director may make such *ex-gratia* payments as the Executive Director deems necessary in the interest of WFP. The Executive Director shall report all such payments to the Board with the financial statements”. During 2009, ex-gratia payments totalled US$805,302 (US$572,310 at 31 December 2008) relating mainly to emergency medical evacuations and medical-related expenses of WFP staff who were victims of the suicide bombing in one of WFP’s country offices.

185. Financial Regulation 12.4 provides that “The Executive Director may, after full investigation, authorize the writing-off of losses of cash, commodities and other assets, provided that a statement of all amounts written-off shall be submitted to the External Auditor with the financial statements.” During 2009, cash losses and advances to staff and suppliers resulted in write-offs to the total amount of US$0.1 million

(US$3.9 million in 2008). In addition, losses of food commodities after the same arrived at the recipient country totalled 21,960 mt with a value of US$9.4 million in 2009 (21,699 mt with a value of US$11.4 million in 2008). Losses from non-food items amounted to US$1.4 million in 2009.

186. Fraud and presumptive fraud in 2009 comprised of theft of commodities and non-food items involving WFP staff and third parties as well as misappropriation of cash valued at US$1,349,724, of which US$84,007 has been recovered (US$570,206 and US$94,582, respectively in 2008).

# NOTE 10: RELATED PARTY AND OTHER SENIOR MANAGEMENT DISCLOSURE

## Note 10.1: Key Management Personnel

| | Number of Individuals | Compensation and Post Adjustment | Entitlements | Pension and Health Plans | Total Remuneration | Outstanding Advances against Entitlements | Outstanding Loans |
|---|---|---|---|---|---|---|---|
| | | *US$ millions* | | | | | |
| **Key management personnel, 2009** | **6** | **1.0** | **0.6** | **0.2** | **1.8** | **0.2** | **-** |
| **Key management personnel, 2008** | **4** | **0.7** | **0.4** | **0.3** | **1.4** | **0.2** | **-** |

187. Key management personnel are the Executive Director and the Deputy Executive Directors, as they have the authority and responsibility for planning, directing and controlling the activities of WFP. The Executive Board consists of 36 Member States without personal appointment.

188. The aggregate remuneration paid to key management personnel includes: net salaries, post adjustment, entitlements such as representation allowance and other allowances, assignment and other grants, rental subsidy, personal effect shipment costs, and employer pension and current health insurance contributions.

189. Key management personnel are also qualified for post-employment benefits (Note 2.11) at the same level as other employees. These benefits cannot be reliably quantified.

190. Key management personnel are ordinary members of UNJSPF.

## Note 10.2: Other Senior Management

| | Number of Individuals | Compensation and Post Adjustment | Entitlements | Pension and Health Plans | Total Remuneration | Outstanding Advances against Entitlements | Outstanding Loans |
|---|---|---|---|---|---|---|---|
| | | *US$ millions* | | | | | |
| **Other senior management, 2009** | **24** | 4.2 | 1.0 | 1.0 | 6.2 | 0.8 | 0.1 |
| **Other senior management, 2008** | **29** | 3.8 | 1.7 | 1.4 | 6.9 | 0.6 | 0.1 |

191. In addition to key management personnel whose remuneration, advances and loans are required to be disclosed under IPSAS 20, similar disclosure is also made for other senior management of WFP for the sake of completeness and transparency. Other senior management include Regional Directors and Headquarters divisional directors.

192. Advances are those made against entitlements in accordance with staff rules and regulations.

193. Loans granted to other senior management are those granted under staff rules and regulations. Included are car loans, house rental advances and salary loans. These were granted free of interest and are recovered either in lump sum or in instalments through salary deductions.

194. Advances against entitlements and loans are widely available to all WFP staff.

## NOTE 11: THIRD-PARTY AGREEMENTS

| **Third-party agreements reconciliation** | **2009** | | **2008** | |
|---|---|---|---|---|
| | *US$ millions* | | | |
| **Opening balance at 01 January** | | **33.0** | | **27.7** |
| New third-party agreements set up in the period | 93.5 | | 170.7 | |
| Less: Receipts/additions during the period | (109.7) | (16.2) | (84.1) | 86.6 |
| Third-party agreements payables during the period | (151.8) | | (158.7) | |
| Less: disbursements/deductions during the period | 144.9 | (6.9) | 77.4 | (81.3) |
| **Closing Balance at 31 December** | | **9.9** | | **33.0** |

195. A third-party agreement is a legally binding contract between WFP and another party in which WFP acts as an agent to provide goods or services at an agreed price. Transactions relating to third-party agreements are treated as receivables and payables

in the Statement of Financial Position. TPA receivables and payables are offset against each other in order to reflect the net position with the third parties.

196. The above table shows the movement of third-party agreements transactions during 2009 showing a net receivable from third parties of US$9.9 million (US$33.0 million at 31 December 2008) (Note 2.5).

## NOTE 12: EVENTS AFTER REPORTING DATE

197. WFP's reporting date is 31 December 2009. On the date of signing of these accounts by the External Auditor, there have been no material events, favourable or unfavourable, incurred between the balance sheet date and the date when the financial statements have been authorized for issue that would have impacted these statements.

198. On 10 March 2010 the United Nations Monitoring Group on Somalia (MGS), which was created pursuant to 2008 Security Council resolution 1853, issued a report that included allegations about WFP's controls and mentioned a high level of food diversions. WFP has found many inaccuracies in the MGS report and has carefully pointed them out in a letter to the Security Council Committee pursuant to 1992 and 2009 Security Council resolutions 751 and 1907, respectively, concerning Somalia and Eritrea. WFP has considered this report and the response it gave to the aforementioned Security Council Committee. In light of the information available on hand, WFP considers that no financial adjustments are necessary for the 2009 financial statements.

199. WFP welcomes an independent investigation of these claims. This is in line with WFP's practice of conducting regular audits and investigations in high risk areas, such as the Democratic People's Republic of Korea, and putting in place recommended systems improvements. Additional actions will be taken within the next six months to address these issues, including a thorough audit of the improved controls and their implementation and a review by WFP's investigations unit of the MGS's evidence. The Board is also considering a request for an external audit of such controls.

# ANNEX I

| Name | | Address |
|---|---|---|
| WFP | World Food Programme | Via Cesare Giulio Viola 68/70<br>Parco de' Medici<br>00148 Rome, Italy |
| General Counsel and Director, Legal Office | Bartolomeo Migone | Via Cesare Giulio Viola 68/70<br>Parco de' Medici<br>00148 Rome, Italy |
| Actuaries | Hewitt Associates | 45 Glover Avenue<br>Norwalk<br>Connecticut 06850<br>United States of America |
| Principal Bankers | Citibank N.A. | 16, Foro Buonaparte<br>20121 Milan, Italy |
| | Intesa SanPaolo S.p.A. | Via Monte di Pietà, 8<br>20121 Milan, Italy |
| | Standard Chartered Plc | 6th Floor, 1 Basinghall Avenue<br>London, EC2V 5DD, U.K. |
| Auditor | UK National Audit Office | 157-197 Buckingham Palace Road<br>London, SW1W 9SP, U.K. |

# SECTION II

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# Financial Statements of the World Food Programme 2009

## The External Auditor's Report to the Executive Board of the World Food Programme

I have audited the financial statements of the World Food Programme for the year ended 31 December 2009. These comprise the statements of the financial position, financial performance, changes in net assets, cash flow, and the comparison of budget and actual amounts and the related notes. These financial statements have been prepared under the accounting policies set out within them.

### Statement of Responsibilities

The Executive Director of the World Food Programme is responsible for the preparation and fair presentation of the financial statements, in accordance with requirements of the Financial Regulations as authorised by the Executive Board. This responsibility includes: designing, implementing and maintaining internal control; the fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

My responsibility is to issue a report on the audit of the financial statements, in accordance with Financial Regulation 14 and the additional terms of reference governing external audit. I am required to express an opinion as to whether the financial statements present fairly the financial position at the end of the period and the results of the operations for the period; and that the financial statements were prepared in accordance with the stated accounting policies.

I also report to you whether, in all material respects, the transactions have been made in accordance with the financial regulations.

### Basis of Opinion

I conducted my audit in accordance with International Standards on Auditing (UK and Ireland), issued by the International Auditing and Assurance Standards Board. Those Standards require that I plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

I planned and performed my audit so as to obtain all the information and explanations which I considered necessary in order to provide me with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error, and that in all material respects the transactions have been made in accordance with the Financial Regulations which govern them and applied to the purposes intended by the Executive Board. In forming my opinion I also evaluated the overall adequacy of the presentation of information in the financial statements.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

**Opinion**

In my opinion:

- the financial statements present fairly, in all material respects, the financial position of the World Food Programme at 31 December 2009 and, for the year then ended, the results of its financial performance, changes in fund balances and reserves, cash flow, and the comparison of budget and actual amounts, in accordance with International Public Sector Accounting Standards; and
- the financial statements have been prepared in accordance with the stated accounting policies.

**Opinion on Regularity**

In my opinion, in all material respects, the transactions which I have tested as part of my audit have been made in accordance with the Financial Regulations and applied to the purposes intended by the Executive Board.

**Opinion on Other Matters**

In my opinion the information given in the Executive Director's Statement for the financial year is consistent with the financial statements.

**Matters on which I Report by Exception**

I have nothing to report in respect of the following matters which I report to you if, in my opinion:

- adequate accounting records have not been kept; or
- the financial statements are not in agreement with the accounting records or returns; or
- I have not received all of the information and explanations I require for my audit.

**Long-Form Report**

I have separately provided a long form report for the World Food Programme as a whole, which I have issued in accordance with Financial Regulation 14.4.

Signed on original.

**Amyas C E Morse**

**Comptroller and Auditor General, United Kingdom**

**External Auditor**

National Audit Office

157-197 Buckingham Palace Road

London, SW1W 9SP

United Kingdom

17 May 2010

NAO National Audit Office

# 2009

## External Auditor's Report

The National Audit Office (NAO), headed by the Comptroller and Auditor General of the United Kingdom, provides external audit services to the World Food Programme.

The External Auditor has been appointed by the Executive Board in accordance with the Financial Regulations. In addition to certifying the accounts of the WFP under Article XIV of the Financial Regulations, he has authority under the mandate, to report to the Executive Board on the efficiency of financial procedures, the accounting system, the internal financial controls and the general administration and management of the WFP.

The aim of the NAO's audit is to provide independent assurance to the Executive Board; to add value to the WFP's financial management and governance; and through the external oversight process to support the objectives of the UN World Food Programme.

The NAO provides external audit services to international organisations, working entirely independently of its role as the United Kingdom's Supreme Audit Institution. The NAO has a dedicated team of professionally qualified staff with wide experience of the audit of international organisations.

**For further information please contact:**
Damian Brewitt
Director , Room Blue 4
National Audit Office
157-197 Buckingham Palace Road,
Victoria, London, SW1W 9SP

020 7798 7256
Email: damian.brewitt@nao.gsi.gov.uk

# WORLD FOOD PROGRAMME

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April 2010 Reference:

# OVERALL RESULTS OF THE AUDIT

1. We have audited the financial statements of the World Food Programme (WFP) in accordance with the Financial Regulations and in conformity with International Standards on Auditing.

2. The audit revealed no weaknesses or errors which we considered material to the accuracy, completeness or validity of the financial statements as a whole. The External Auditor's opinion confirms that the financial statements present fairly, in all material respects, the financial position of the World Food Programme at 31 December 2009 in accordance with International Public Sector Accounting Standards (IPSAS). The opinion also confirms that in all material respects, the transactions tested as part of the audit have been made in accordance with the Financial Regulations and applied to the purposes intended by the Executive Board.

3. The financial statements for 2009 have, for the second year, been prepared using the IPSAS accounting framework. To date, WFP is the UN system's only early adopter of IPSAS. The use of IPSAS continues to represent a fundamental strengthening of governance and transparency in financial reporting.

4. As in previous years we have provided a number of report deliveries to the Executive Board in respect of our audit work during 2009 (Annex A), this reporting cycle concludes with the presentation of our report focusing on our certification of the financial statements.

5. On financial matters we have identified a number of issues arising from the financial performance of WFP during 2009, these include a need to ensure that income contributions remain consistent with the level of planned expenditures, given a decline in contributions during 2009. We have also assessed the impact of the UN Monitoring Group on Somalia's report on allegations of food losses. In our view we have found insufficient evidence to suggest that these allegations represent a material risk of fraud within the financial statements and consequently this has not impacted on our audit opinion. During 2009 WINGS II was implemented by WFP, and we have made recommendations that a post project review of this new system should be undertaken, and that this should include a detailed review of the WINGS II control environment following the first year of the system's operation.

6. In this our final delivery to the WFP Executive Board we have also provided our assessment of the key corporate governance mechanisms within WFP, providing our assessment of where further improvements in governance mechanisms could be made. These include recommendations to improve the use of external advisory committees, reporting against objectives set by the Executive Board and risk management.

7. As WFP works towards the development of improved financial control frameworks we have made recommendations to enhance the benefits arsing from the work of the

Oversight Office and to introduce a Statement on Internal Control which we believe would provide a transparent public statement of the effectiveness of the internal control and risk framework.

## FINANCIAL MATTERS

8. From our financial audit work this year we have identified three areas of importance that we would draw to the attention of the Executive Board, namely:

- Analysis of key financial issues arising from our audit of these statements;
- Our assessment of the impact of allegations arising from the report of the Monitoring Group on Somalia on our audit opinion;
- An assessment of the current implementation status of WINGS II, as evidenced from our work on financial statements this year.

### Key indicators of financial performance

9. The transparency of IPSAS based accounts gives value to the Executive Board by providing an accurate and consistent picture of resource utilisation over the financial period. We have identified a number of elements of financial performance of the WFP which merit attention of the Board, these are:

    - a substantially reduced surplus for the year of US$145 million;
    - fund balances and reserves totalled US$4,058 million, which is just sufficient to meet the total liabilities of the WFP;
    - investment income for the year was US$38 million;
    - the inventory of food stood at US$720 million at the year end; and
    - VAT paid totalling US$42 million was awaiting recovery.

#### Operating surplus for 2009 – US$145.2 Million

10. The surplus for the year at US$145 million was significantly less than the surplus of US$1.4 billion for 2008. The surplus represents the difference between the income recognised under IPSAS (including pledged income) to WFP in the year, and actual expenditure, with income falling by around 14 per cent and expenditure increasing by around 14 per cent when compared with 2008.

11. As part of our audit we considered the extent to which contributions might be expected to continue to decline while expenditure increased. Management informed us that the decline in contributions reflected the current global economic and financial uncertainties. Looking forward, pledges made in the first three months of 2010 exceeded US$1.1 billion, and were in advance of the pledges for the same period in

2009, which totalled some US$700 million. Our further analysis identified that this improvement trend was the specific result of donations in 2010 due to the campaign in respect of Haiti, these pledges accounted for some US$260 million and are specific to funding those activities.

12. In respect of WFP's expenditure, the total increased by US$534 million to US$4,228 million. The largest component of WFP's costs continues to be commodities, the cost of which increased from US$2.2 billion in 2008 to US$2.4 billion in 2009. This increase reflected a 21 per cent uplift in the volumes of food distributed (4.75 million Metric Tonnes (MT) compared to 3.92 million MT) although these increases were offset by some reductions in the overall price of food. Other costs reflected the higher level of operational activity in 2009, increasing transport costs and the weakening of the US$.

13. Based on this analysis we have concluded that the decline in income, together with an increase in expenditure, does not pose an immediate threat to the financial viability of the WFP. However there is a continued need for donors to fund projects at a rate commensurate with the level of project expenditure to ensure that fund balances are not depleted.

### Fund balances and Reserves - US$4.0 Billion

14. At 31 December 2009 the Fund balances and Reserves of WFP stood at US$4,058 million (Note 2.14). US$3,792 million were Fund balances which represent the unexpended portion of contributions that are available to fund the future operational requirements of the WFP. The balance has been calculated after deduction of all liabilities relating to the projects being funded, but is not adjusted for US$721 million of commitments already entered into for the delivery of food and services in 2010 (Note 8.1.2). On average, the balances are sufficient to fund some seven months of planned operational activity.

15. In reviewing the overall level of balances it is necessary to recognise that the reserves comprise individual project balances. Due to the nature of WFP activities and donations, funds can only be utilised as directed by donors for specific purposes, the balances outstanding at the end of 2009 are therefore subject to restriction.

16. The WFP unrestricted reserves comprise only a small element of overall reserves, US$266 million, and these have been established by the WFP Board for funding and/or financing activities under specific circumstances and can be used as directed by the Board. These reserves are required to fund the liabilities of the WFP which are not project related. The most important non-project liabilities are the employee benefits which currently total US$279 million, with 144 million already charged to relevant funds and projects, the remainder of US$135 million which will be charged against project costs in future financial periods. This provides comfort to the Board that long-term employee benefit liabilities can be met.

### Investment performance – income US$38 Million

17. Following a net loss of US$9 million in 2008, the cash and investment portfolio returned to surplus in 2009 generating interest and investment income of US$38 million surplus for the WFP.

**Table 1: Investment Performance in 2009**

| | 2009 US$ m | 2008 US$ m |
|---|---|---|
| Realised losses on investments sold in year | (23.5) | (6.3) |
| Unrealised gains/(losses) at the year end | 37.3 | (51.4) |
| Income earned in the year | 24.9 | 48.1 |
| **Total** | **38.7** | **(9.6)** |

18. In 2008 WFP took the decision to segregate securities that no longer met investment guidelines in a 'legacy' portfolio. During 2009 the WFP Investment Committee met regularly and monitored financial performance and compliance with investment policy. As market opportunities arose, legacy investments were divested in line with the policy to reduce the risk profile of the overall investment portfolio.

19. Responding to the market turmoil in 2008, the Executive Director approved revised investment guidelines for the management of the investment portfolio which were reported and noted by the Board in November 2008. These revised guidelines represented a more cautious approach to investments, with a greater emphasis on cash, which reduces risk and consequently financial returns. This meant that in 2009, even though the value of investments rose from US$1.6 billion to US$1.9 billion, the low yield market environment resulted in interest and investment income falling by almost 50 per cent from US$48 million to US$25 million although total returns increased as a result of increases in unrealised gains.

Recommendation 1: *We recommend that WFP continue to monitor market conditions and that the Investment Committee ensures appropriate oversight of investment risk and performance. Investment performance should be reported to the Board on an annual basis summarising the performance of investments; the level of risk taken; and include a confirmation of compliance with the approved policies.*

### Accounting for food – inventory US$720 Million

20. The value of the inventory of food at 31 December 2009 was US$720 million, a 28 per cent reduction on 2008. This reflected lower food prices, coupled with a smaller inventory holding at the end of the year (inventory was 1.43 million MT compared to 1.68 million MT at the end of 2009), and reflected the increased level of food distribution over the period.

21. The management of commodities lies at the heart of WFP operations and it is essential for WFP to know where inventory is located. Each month the inventory in each warehouse is counted and reconciled to the quantity of stock recorded in WINGS II. Any differences are adjusted.

22. We have reviewed the arrangements for the inventory counts and attended counts on a test basis in Sudan and Burkina Faso. This has enabled us to confirm that the systems for the control of inventory are operating effectively, to the extent necessary for us to provide an opinion on the financial statements. The differences between the WINGS II figure for inventory and the actual amount held in warehouses totalled 850 MT in 2009, valued at US$0.4 million, which we consider to be insignificant. This amount has been written off and appears as a loss in the financial statements (Note 9).

23. Overall, WFP estimates that the stock held at 31 December 2009 represents approximately 4 months supply required to sustain WFP operations at the projected 2010 level. WFP consider this stock level is appropriate, taking into account the average lead times between the purchase and delivery of food to beneficiaries, the need to pre-position food at secured locations where food insecurity level is very high, and that food movement can take a considerable length of time.

24. Although WFP operate a strong system to control the physical inventory, valuation is undertaken automatically by WINGS II. Our review of inventory valuation found examples of errors in valuation within the system, which clearly priced some commodities at significantly excessive valuations. We worked with management to isolate these outliers, and performed additional work to confirm that we were satisfied with the level of inventory balances. Following this work WFP have now confirmed that reports will be run to review such errors in the future. In our view these types of error highlight the need to undertake a review of WINGS II, following the initial year of its operation.

### Accounting for value added tax – amount receivable US$42.1 million

25. The audit of the 2009 financial statements identified that WFP is owed US$42.1 million in recoverable Value Added Tax (VAT) from host governments. As a UN organisation the WFP is generally exempt from sales taxes such as VAT, and our audit considered the reasons for such a significant level of under-recovery.

26. The 1946 Convention on Privileges and Immunities of the UN[1], provides the WFP with exemption from direct taxes such as VAT. Implementation is subject to a basic agreement negotiated with the host government of each country where WFP operates. The basic agreement can be bilateral between the WFP and the host government, or encompass other UN bodies.

27. Our examination of VAT is based on information that we have collected in country offices during our audits, and a census of Country Offices undertaken by Central Finance on our behalf. Our analysis shows that there are four main VAT regimes in force across the 96 counties in which WFP operate:

- in 44 countries WFP enjoys VAT exemption: *goods and services are provided to WFP without any charge for VAT;*
- in 12 countries WFP recover VAT paid: *WFP pay VAT on goods and services and recover the VAT from the host government;*
- in 24 countries there is partial recovery or restrictions on recovery;
- in 5 countries there is no recovery of VAT; and
- 11 countries do not impose VAT.

28. In those countries where VAT is paid, the cost is charged to the project and any subsequent recovery credited back to the project. Any amount of VAT not recovered therefore rests as a charge to the project which is funded out of donor contributions. We observe that the financial statements for individual projects are not designed to show any amounts of VAT charged to the project, nor any balance of VAT to be recovered.

29. We examined the operation of the system for the recovery of VAT. We found that at 31 December 2009 VAT paid and awaiting recovery amounted to US$42.1 million. US$34.9 million related to amounts due from the Government of Sudan, US$4.3 million from the Government of Mozambique, and 18 other countries constituted the balance of US$2.9 million.

30. In 2009, as part of our regular audit of WFP Bureaux and countries, we undertook an audit of the WFP operations in Sudan including the arrangements for the recovery of VAT. We found that out of a total of US$38.9 million VAT paid by WFP, US$3.9 million had been recovered and US$34.9 million remained awaiting recovery at 31 December 2009 (Table 2). The Government of Sudan have undertaken to make repayments in instalments, pending review of documentation and the exclusion of any claims deemed incorrect. Based on this agreement the WFP considers that the full amount of VAT is recoverable and in due course will be credited back to the projects that funded the VAT payments.

[1] http://daccess-dds-ny.un.org/doc/RESOLUTION/GEN/NR0/032/73/IMG/NR003273.pdf?OpenElement

**Table 2: VAT paid to the Government of Sudan, and recoveries made.**

| Year | VAT Paid<br>US$ m | VAT Recovered US$ m | Balance Outstanding at 31 Dec 2009 US$ m |
|---|---|---|---|
| 2005 & earlier | 11.18 | 0.81 | 10.37 |
| 2006 | 8.47 | 0.83 | 7.65 |
| 2007 | 6.38 | 1.67 | 4.71 |
| 2008 | 6.14 | 0.62 | 5.52 |
| 2009 | 6.70 | 0 | 6.70 |
| **Total** | **38.87** | **3.93** | **34.95** |

Source: WFP, Sudan.

31. Despite the Convention on Privileges and Immunities, WFP is paying VAT in some countries, and there are delays in recovering VAT in others which can result in lost interest. The arrangements for accounting for VAT within WFP need to be improved so that there is transparency in respect of VAT charged to projects to enable donors to understand the costs which they are funding.

Recommendation 2: *We recommend that WFP reviews its basic agreements with sovereign governments for the implementation of the Convention on Privileges and Immunities to ensure that immunity from VAT is granted.*

Recommendation 3: *We recommend that WFP should be more active in seeking timely reimbursement of VAT in respect of those countries where VAT claims have to be submitted. We would suggest that the Board be kept informed of the level of outstanding reimbursements.*

Recommendation 4: *We recommend that where VAT is charged, this should be clearly shown in the project's financial statements, together with any anticipated recovery, to enable donors to monitor the situation.*

## Fraud, ex-gratia payments, losses and amounts written off

32. As part of our audit we review losses arising from fraud and other causes, ex-gratia payments, and amounts written off – collectively known as losses and special payments. The information is disclosed in various places in the financial statements. We have reviewed the losses and amounts written off and consider that they are not indicative of a systematic break-down in financial control within WFP (Table 3).

**Table 3:** WFP Losses and Special Payments

| Description | 2009 US$ million | 2008 US$ million |
|---|---|---|
| Bad debts written off (Note 2.3) | nil | 3.1 |
| Losses due to impairment of food (Note 2.4) | 3.3 | nil |
| Losses of food in the recipient country (Note 9) | 9.4 | 11.4 |
| Losses of non-food inventory (Note 9) | 1.4 | nil |
| Write-off of cash losses (Note 9) | 0.1 | 3.9 |
| Theft and fraud (net of recoveries) (Note 9) | 1.3 | 0.5 |
| Ex gratia payments (Note 9) | 0.8 | 0.6 |
| **Total** | **14.2** | **19.5** |

## Allegations of corruption, theft and diversion of food aid: Somalia

33. In March 2010 allegations of corruption, theft and diversion of food aid were made against the WFP's operation in Somalia by the United Nations Monitoring Group on Somalia (MGS), which echoed allegations made by the UK Channel 4 News in June 2009. We treat all allegations of corruption, theft and diversion of food aid seriously and we have separately provided the Board with advice[2] as to how the allegations might be reviewed. Paragraph 6 of the Executive Director's Statement within the audited financial statements has drawn attention to the situation in Somalia and the actions being taken and planned by the WFP.

34. In advance of the assessment of the evidence regarding the allegations made by MGS, the Executive Board asked us to draw up draft terms of reference for a more detailed review of Somalia operations. Our advice is that WFP should:

- Obtain the MGS evidence concerning the allegations;
- Review the quality of the evidence to advise the Executive Board; and
- Design and perform a review of food distribution controls in Somalia.

35. In forming our audit opinion on the financial statements we are required to consider whether resources have been used for their intended purposes and we have undertaken a preliminary assessment of the allegations and their potential impact on our regularity audit opinion. Our consideration has drawn on the work of the Oversight

[2] Advice to the Executive Board: Somalia

Office (OS) and our own audits including the operation of WFP's controls in difficult operational environments.

36. The OS Audit (OSA) function provides an independent review of operational and financial control throughout the WFP. OSA assessed the risk to the Somalia programme as "high" and has undertaken regular audits in recent years. The External Audit team have monitored the work of OSA in Somalia over the years and we have not identified any material weaknesses in internal control from these reports that would put at risk the audit opinion on the financial statements.

37. Our own programme of work has included audits at each of the Regional Bureaux and other countries in recent years, work completed in 2009 is summarised in Annex A. Each biennium we have included at least one audit in a difficult operational environment, most recently in respect of the 2009 audit to Darfur, Sudan. We have covered other operations during our tenure including Democratic People's Republic of Korea (2007), Afghanistan (2005) and Democratic Republic of the Congo (2005). These audits have provided us with a source of evidence on the operation of WFP's general control environment in such field operations. We consider that our programme of visits during 2009 has provided us with material assurance over field operation expenditures we have visited.

38. We have reviewed the specific allegations made by UK Channel 4 News, and the report prepared by OS's Inspections and Investigations Office (OSI), which covered these issues. We have also reviewed the allegations made by MGS; the commentary on those allegations provided by the WFP Senior Management Team; and the letter from the Executive Director to the UN Secretary-General commenting on the allegations.

39. We have been unable to assess any detailed evidence to support the allegations made and we understand that WFP are in discussion to ensure that the evidence is released by the MGS. At this stage, we have not been presented with any evidence of a systematic breakdown in financial controls which would lead to a material misstatement in the annual accounts. In the absence of this evidence, and relying on the work of OS, which did not identify any material error or control weaknesses, we are of the view that there is no evidence of material error in the financial statements. However, the allegations will need further investigation during 2010, for example OSA did identify weaknesses in the documentation of procurement processes and have made recommendations for their strengthening in future. We have not however, considered that these represent material weaknesses in the context of the WFP's overall financial statements.

Recommendation 5: *We recommend that WFP considers the advice in our separate report and investigates the allegations made by MGS, ensuring that the normal rules of evidence gathering and assessment are followed. Fundamental to this review will be the detailed facts and evidence supporting the allegations made in the MGS report, and the basis on which they have estimated food losses.*

### Implementation of the WINGS II system

40. Following the decision of the WFP Executive Board to implement IPSAS, the Secretariat established a central project team to identify and oversee the changes necessary to make IPSAS implementation a success. The changes included a significant upgrade to the existing computerised accounting system (WFP's Information Network and Global System – known as WINGS). The changes were designed to support IPSAS and improve business efficiency and effectiveness. The upgraded system is known as WINGSII.

41. Since the WINGSII project commenced, the Executive Board have been kept advised of progress including: reductions in the scope of WINGS II; changes to the projected implementation date; and increases in estimated costs. The original intention was for WINGII implementation from 1 January 2008 at a cost of US$30 million with an upgrade of the human resources functionality, estimated at US$8.9 million, to be implemented at a future date. At the end of the analysis phase, and in the light of the introduction of IPSAS, it was decided that the human resources element needed to be included in the initial implementation in addition to an upgrade of the inventory management and commodity tracking solution at a cost of US$10 million. As a result of these changes the cost of the project was increased to US$49 million at the end of 2006. Following agreement the implementation date for WNGS II was later revised to 1 January 2009 and 1 April 2009 with estimated costs rising to US$56.5 million.

42. The system finally went live from 1 July 2009 at a direct cost of US$54.8 million, of which US$47.5 million has been capitalised as an intangible asset (Note 2.8 of the Financial Statements) and US$7.3 million has been expensed in the 2009 and earlier accounts, in accordance with IPSAS.

43. We observe that the headline cost of US$54.8 million for WINGS II is less than the final approved budget of US$56.5 million (due to the deferral of US$1.5 million of work on inventory management). However there are many indirect costs that WFP have incurred in implementing the new system which are not reflected in the total cost. For example, in accordance with IPSAS accounting requirements, management and staff costs have only been included to the extent that they were wholly attributable to implementing WINGS II. The delay in implementing WINGS II incurred the opportunity cost of staff operating old systems, rather than moving on to the new systems better suited to business needs and decision making. Consequently the full costs of WINGS II are understated, and management have not established the full quantum of costs.

44. The development of WINGS II, and with this the move to IPSAS, have incurred significant costs and as we have previously[3] recommended WFP should undertake a post-implementation evaluation and consider the cost- benefits of the new system. We understand that an assessment will be made during the current year and report the results next year in the 2010 Annual Performance Review.

45. WINGS II is a large Enterprise Resource Planning (ERP) system based on the SAP computer system. It includes modules dealing with key business processes including finance, human resources, purchasing and inventory control. As part of our 2009 audit we have undertaken a review of the financial aspects of WINGS II only to the extent necessary to form an external audit opinion on the financial statements. Our review focussed on finance and did not cover the totality of the system in the depth necessary to provide a high level of assurance to management that the system is operating reliably and as designed.

46. Since WINGS II is central to many key systems and processes in WFP, we believe that it is essential that, following the initial period of implementation, a thorough review is undertaken to confirm that the system is fit for purpose and meets business needs. Such a review should be performed independently of the project team that implemented WINGS II, this might be lead by OS, drawing on specialist computer auditors with knowledge of SAP. Due to the importance of WINGS II to the external audit process, the timing and scope of the review should be subject to agreement with our successors to avoid any risk of duplication of effort and to provide them with a basis of assurance given that the period between their appointment and the preparation of financial statements will be less then eight months.

Recommendation 6: *We again recommend that a cost benefits assessment of WINGS II is undertaken to assess whether the project has delivered the objectives established by WFP and that these findings be brought to the Board for consideration.*

Recommendation 7: *We further recommend that a full assessment of the WINGS II control environment process is undertaken using specialist IT skills. This is essential to the assurances the Executive Director needs in order to satisfy herself that there is an effective internal control environment.*

[3] Report of the External Auditor on Preparedness for IPSAS and WINGS II (WFP/EB.1/2009/6-D/1)

# GOVERNANCE MATTERS

47. Over the period of our tenure as External Auditor, we have provided observations and recommendations to help the WFP to develop and strengthen governance and assurance processes. We have consistently promoted the benefits of sound corporate governance and effective systems of internal control. These mechanisms strengthen effective financial management, provide clear accountability and promote transparency in the use of resources. Good corporate governance is driven by a sound governance structure; clear objectives linked to planned activity; a focus on risk management; effective internal oversight and a clear articulation of the internal control environment.

48. While much progress continues to be made by WFP in developing and refining their governance arrangements, our final report provides the opportunity to emphasise some areas for further development that the Board may wish to consider.

## Governance structure

49. WFP was established in 1963 as an autonomous joint subsidiary programme of the United Nations and the FAO[4]. Initially closely linked to FAO, WFP has increasingly developed its own programme of work. The governance structure of the WFP reflects its development, with the Executive Board consisting of 36 Member States drawn from the UN Economic and Social Council (18 Members) and the FAO Council (18 Members). In undertaking its work the WFP works closely with FAO and other UN bodies, particularly in respect of approval of significant new interventions, and operations in the field, building on the UN's approach of Delivering as One.

50. We considered oversight of financial matters within the existing governance structure and identified a number of bodies from which the Board receives advice, these comprise of the two committees which are provided for under WFP's General Regulations and the Audit Committee, established by the Executive Board.

### External advisory bodies

51. The Executive Board receives advice from two external committees, reflecting the historic structure of WFP as a subsidiary programme of the UN and FAO. These committees are the UN's Advisory Committee on Administrative and Budgetary Questions (ACABQ) and the FAO Finance Committee.

52. The ACABQ consists of members appointed by the UN General Assembly with a remit covering the United Nations. It provides advice to WFP based on matters referred to them covering administration, budgets and audit. ACABQ brings a UN wide perspective to WFP issues, and its reporting is linked to each session of the Board. These arrangements enable WFP's decisions to be considered in the context of wider UN developments and practices.

[4] WFP General Regulations: Article VIII - Legal status and capacity

53. In matters relating to financial administration and strategy WFP draws upon the advice of the FAO Finance Committee, which is comprised of member nation representatives, and meets formally twice a year and on an ad hoc basis to advise and inform the WFP Executive Board meetings. The Committee reviews key papers including the WFP strategic and management plans and matters arising from audit reports. Based on their examination of the evidence, the Committee provides comments to the WFP Executive Board.

54. As governance structures have evolved within WFP we believe it would be appropriate for the Executive Board to review the specific role and responsibilities and the value which these committees provide within the overall governance and decision making process within WFP. The Board should consider whether the existing arrangements meet the specific business needs of the WFP. As an example there is duplication in respect of advice to the Board from the FAO Finance Committee in respect of internal control and audit matters now that WFP has its own effective audit committee arrangements.

### WFP Audit Committee

55. The Audit Committee continues, in our view, to deliver its mandate to provide governance oversight. The Committee is comprised of members who have the independence, knowledge and experience to undertake examinations of matters relating to financial reporting, audit and internal control.

56. The Committee's work includes consideration of internal and external audit plans and report outputs; the internal control environment and the annual financial statements. They report their conclusions and recommendations to the Executive Director and annually to the Board, and are an essential component of the governance structure. During our tenure we have noted the benefits arising from this scrutiny and would encourage the Committee to continue to play an active part in challenging and advising management and assurance providers.

57. We believe that the Board should place increasing reliance on the Committee in respect of matters pertaining to audit. The Board should look to seek independent advice and recommendations from this expert committee. Drawing on experience over the last year we believe there is scope for the Board to utilise the Committee for advice on matters such as additional auditor remuneration and in respect of emerging and significant control issues such as Somalia. At present the Committee is briefed on such matters as part of the cycle of meetings, and the full benefit of their expertise cannot be fully utilised when needed. Such enquires and briefings for audit committees on these types of issues are normal and expected practice in other organisations, and would enable the Executive Board to draw on independent and expert advice to inform its deliberations.

58. Although the Audit Committee presents to the Board on an annual basis we believe that the Committee might have a more formalised and regular dialogue with the

Bureau, this would help the Committee to take account of matters which were of concern to the Board, to ensure these could be captured within its work programme.

Recommendation 8: *We recommend that the Executive Board should seek to place more reliance and take greater account of the work of the Audit Committee. Furthermore, we recommend that the Executive Board considers the way it engages with the work of the Committee through the Bureau, to ensure that the Committee is fully briefed on matters of concern to the Board; and that through these meetings the Board have a greater level of knowledge regarding the assurances it is being provided.*

## Measuring performance against objectives

59. Sound governance begins with a clear articulation of objectives and accountability for delivery against these measured through a transparent reporting mechanism. WFP's current objectives are to support governments and global efforts to ensure long-term solutions to the immediate hunger challenge. WFP has established five Strategic Objectives[5] linked to 14 goals. These are set out in the Strategic Plan 2008-2013. These goals are developed further in the Management Plan which provides budgets for each biennium, and which is subject to regular update to reflect emerging priorities, most recently to encompass emergencies such as Haiti.

60. Earlier this year, in our report on strengthening financial management[6]we again identified a need for a clear link to be developed between the strategic objectives; the forecast of resources and ultimately an account of the resources consumed in delivering them. The Secretariat are developing a comprehensive Performance Management Framework including both the Strategic and Management Results Frameworks, but this is proving complex because of the cross-cutting nature of the strategic objectives.

61. Reflecting on our recommendations over recent years we believe that WFP would benefit significantly from more regular information on resource consumption matched against the achievement of its objectives. In our view this is an essential component in enhancing governance and oversight by the Board, much work remains to be done, and a clear commitment should be made to reporting these matters to the Board.

## Risk management

62. Many of our reports to the Board, and our more detailed Country office reporting, has identified the need for effective risk management. The management of risk is at the heart of effective governance as stakeholders need assurance that key risks are

[5] Report of the External Auditor on Preparedness for IPSAS and WINGS II (WFP/EB.1/2009/6-D/1)

[6] Report of the External Auditor on Preparedness for IPSAS and WINGS II (WFP/EB.1/2009/6-D/1)

identified, understood and managed appropriately. Potential risks which are left unmanaged could damage the operational effectiveness of the WFP, with consequential impacts on achievement and the level of donor funding.

63. WFP recognises the importance of risk management and, since our report in 2008[7] it has been developing a system to identify and manage corporate risks. However, we consider that for an organisation with such substantial risks as WFP the progress on risk management has been slow, and we believe that there is an urgent need to implement a system to provide assurance to the Board.

64. In October 2009 the Deputy Executive Director for Resource Management and Accountability launched the first phase of a project to implement and roll-out an integrated framework of internal control and corporate risk management. This is being achieved through the adoption and application of the COSO[8] project.

65. The COSO principles encompass a framework of components which include:

- Control environment;
- Risk assessment;
- Control activities;
- Information and communication; and
- Monitoring.

66. The Secretariat considers that many of the COSO principles are already being followed across WFP with actions in place to address known weakness, for example the further development of performance and risk management. WFP's plan is for COSO to be progressively implemented. The second phase, known as the Programme to Strengthen Managerial Control and Accountability commenced in 2009, with a total implementation budget of US$3.2 million. It is important in our view for the Executive Board to satisfy itself that sufficient resources are dedicated to this process, and that a specific project timeline is approved and monitored. The COSO framework offers a real opportunity to provide a comprehensive system of internal control enhancing the confidence of the Board and it is important that these benefits are achieved as early as possible.

67. In the interim we believe that there is scope for the identification of key business risks and for these to be tabulated in a format to enable the Board to understand how significant corporate risks are managed and mitigated, and to begin an engagement with the Board on their level of risk appetite. This will help to provide useful information which will be necessary in the effective implementation of COSO.

[7] Report of the External Auditor on Preparedness for IPSAS and WINGS II (WFP/EB.1/2009/6-D/1)

[8] Report of the External Auditor on Preparedness for IPSAS and WINGS II (WFP/EB.1/2009/6-D/1)

Recommendation 9: *We recommend that the Executive Board confirms that management have a clear and timebound plan for the implementation of effective and systematic risk assessment within the context of COSO implementation, and that sufficient resource is dedicated to enable it to be implemented successfully.*

## Maintaining an effective internal audit service

68. Effective internal oversight is a key source of assurance for the Executive Director and Executive Board, providing assurance that the system of internal control is operating effectively. In an organisation operating across the world, often in areas of danger and hardship, the quality of assurance in respect of internal control risk is essential. This is reflected in the substantial resources dedicated to the Oversight Office (OS) function, US$11.6 million during the 2008-09 biennium.

69. The OS is led by the Inspector General and comprises two components. The Office of Internal Audit (OSA), which undertakes a structured and risk based programme of audits in country offices and Headquarters' units; and the Office of Inspections and Investigations (OSI) undertakes investigations of allegations and suspicions of fraud in WFP. OS operates independently of the operational structure of WFP, with the Inspector General reporting directly to the Executive Director, the Audit Committee and annually to the Executive Board. In our view these arrangements meet what we regard to be the normal expected practice to ensure that it remains primarily a source of assurance available to the Executive Director, while providing direct reporting lines and contacts to the Committee and Board where appropriate and necessary.

70. In reviewing OSA in the context of WFP's governance arrangements we have drawn on our general work in reviewing internal audit outputs to consider how arrangements can be further developed to support governance and oversight. We have focused in particular on planning and audit coverage during 2009, the follow-up of recommendation and the scope for enhancing the performance reporting of OS.

### Planning, resourcing and audit coverage during 2009

71. In December 2008 OSA prepared a plan for audit assignments for 2009. The plan was designed to provide an opinion on WFP's risk management, control and governance processes. In developing the plan OSA undertook both a risk assessment and discussions with senior management to establish an audit needs assessment. Key risk areas identified by the audit needs assessment were rated as high, medium or low, with high risks being addressed annually, medium on a two year cycle, and low each third year.

72. OSA planned to undertake 25 audits of non-IT systems (20 field offices and five HQ business units) covering 18 high, 23 medium and one low risk process. In addition, IT processes were assessed as inherently risky and plans prepared to undertake eight IT

audits.  This gave a total of 33 audits for 2009. The plan was costed at US$4.9 million requiring 21 staff to deliver. This was equivalent to a budgeted cost of US$150,000 per review, taking an average of half a staff-year of effort. The Audit Committee considered and approved the plan in January 2009.

73. The Inspector General's annual report shows that 20 audits were delivered in 2009, representing 67 per cent of the planned work. We are concerned that the delivery of this plan was impacted by staff shortages, resulting in delays and a shortfall of outputs against the plan. We understand that the Inspector General has actions in hand to appoint the necessary skilled staff and that sub-contracting of tasks to another audit firm or source was considered unnecessary.

74. In our view greater consideration should be given to supplementing staff shortages by externally contracting for audit services, based on specific deliverables. Given the need for sufficient breadth of technical experience and the significant on-going training commitments, outsourcing of audit work should be considered to address the deficiencies as they arise. As we have commented earlier that, given the significance of WINGS II to WFP, it is essential that OS has the necessary IT audit skills that will be central to the provision of assurance over the coming years, and these might best be sourced externally.

75. In carrying out our work we review internal audit outputs to assess the extent to which they meet established professional standards for internal audit practice, such as those of the Institute of Internal Auditors (IIA). The IIA have recommend an external review of internal audit functions at least every five years (the last being in 2006) and OSA has responded positively to this by planning to undertake another review in 2011, with a self assessment during 2010.

### Implementation of recommendations: making a difference

76. At the end of each assignment OSA produces a report which is agreed with management.  The report includes any recommendations made and analysed according to risk priority. OSA review implementation of recommendations, and as at 31 December 2009 there were 20 high-risk and 564 medium-risk recommendations awaiting implementation. Some 489 recommendations had been outstanding since 2008 and earlier.

77. Following discussions the Audit Committee have recommended that action be taken as a matter of urgency to resolve old outstanding high and medium risk recommendations. We have provided our views to the Audit Committee that we feel there is a need for rationalising these outstanding recommendation in order to focus management action on those of a more substantial nature, and to provide a format which could be used by the Audit Committee to track progress on key recommendations.  We would urge that the current development of a mechanism to do this focuses on prioritisation, and does not become unduly bureaucratic.

### Measuring OSA performance

78. We believe that it is worth considering the development of a number of performance measures to ensure that the performance of OS can be properly considered. The Inspector General should consider the development of key metrics for reporting to demonstrate the value of OS work, and agree these with the Executive Director and the Audit Committee. In future these might be included in the Inspector General's Annual Report to the Executive Board and cover:

- Level of professionally qualified staff;
- Percentage of high risk systems reviewed in year;
- Rate of adoption and implementation of recommendations;
- Cost per audit; and
- Efficiency gains and money saved as a result of the audits.

*Recommendation 10: We recommend that the Inspector General, with support from the Audit Committee strengthen the effectiveness and impact of OS by:*

*>ensuring a full complement of professionally skilled staff, and where necessary to further consider the use of outsourced expertise for resource gaps or specific audit assignments, particularly in respect of IT;*

*>an enhanced focus on prioritisation and cleansing outstanding recommendations and developing a format to monitoring the implementation of the most significant of these recommendations; and*

*> develop performance metrics to demonstrate quality and impact and that these metrics could be included within the OSDA Annual Report.*

## Statement on Internal Control

79. With the development of COSO the WFP is developing a strengthened framework of internal control. In our view this provides an appropriate time to consider the development of a clear Statement on Internal Control (SIC), which builds on this and the other sources of assurance available to WFP. The SIC is a public accountability document that describes the effectiveness of internal controls within an organisation. It is included as part of the audited financial statements and its publication is now considered best practice for the public and private sectors. It is personally signed by the executive head of the organisation.

80. It is important that WFP is able to demonstrate that resources provided are effectively controlled and managed, and donors need confidence that the system of internal control is of sufficient quality and proportionate to the risks of failure. The SIC can

provide a mechanism for transparently reporting this and the record of the Executive Director’s assessment of internal control. It can also provide an opportunity to platform emerging issues which affect the control environment, and to articulate the measures taken to improve controls.

81. The SIC would usually include a number of key descriptions and disclosures, all of which would provide key information regarding accountability and stewardship in a transparent manner to enable the oversight of the Board. These areas would most commonly include the:

- Scope of responsibility, outlining the Executive Director's responsibility for maintaining a sound system of financial control;
- Purpose of the system of internal control, explaining that it is designed to manage the risk of control failure throughout the year;
- Capacity to handle risk, setting out how the organization is equipped to manage changing risk profiles;
- Risk and control framework, describing the key elements of the control framework and risk management strategy;
- Review of effectiveness, identifying what assurances have been received in forming the conclusion; and
- Control weaknesses, and the actions taken to address them.

82. The primary responsibility for the preparation of the SIC would rest with the Executive Director, based on assurances and support from members of senior management. The OS would play an important role in allowing the Executive Director to form an overall conclusion, by providing an independent assessment of the control environment. The Audit Committee would also play a key role in the production of the SIC, by assessing the level of assurances received in support of the statement and in advising any matters that need to be referenced within the SIC.

83. There is no mandatory requirement either under IPSAS or under WFPs current reporting standards to produce a SIC. Neither is the External Auditor required to provide a specific opinion on the Statement on Internal Control although we would usually report any material inconsistency between the Statement and our own assessment of the internal control environment.

84. The SIC is an effective means of ensuring WFP remains accountable to both Executive Board, donors and other stakeholders for the funds placed at its disposal. In our view, it would be a very positive step for WFP to produce a SIC and would be consistent with other measures taken to strengthen governance and oversight arrangements.

*Recommendation 11: We recommend that WFP should produce a Statement on Internal Control (SIC) and implement this in parallel with COSO, building on the collation of sufficient assurances from senior management and the OS to confirm that internal controls are operating effectively.*

## ACKNOWLEDGEMENT

85. We wish to record our appreciation for the co-operation and assistance provided by the Executive Director and the staff of the WFP in Headquarters and throughout the world during the audit. We would also like to take this opportunity to thank the Executive Board for their confidence in us during the period of our tenure.

86. As our tenure concludes we can confirm that we will follow the requirements of the United Nations Panel of External Auditors in respect of the transition of external audit arrangements, and we will follow the agreed handover protocol with our successors.

Signed on original

**Amyas CE Morse**

**Comptroller and Auditor General, United Kingdom**
**External Auditor**

## Annex A: Programme of work of the External Auditor

Our programme of work for 2009[9] was presented to the October 2008 meeting of the WFP Executive Board after consultation with the Audit Committee and the Secretariat. Subsequently we undertook additional work including the provision of advice to the Executive Board on the terms of reference of the WFP Audit Committee (February 2009) and how to review the allegations made by the UN Monitoring Group on Somalia (April 2010). Subjects covered by our audit reports to the Board are shown in Table 4.

| Table 4: External Audit Reports Issued in 2009 and 2010 |
|---|
| Advice on the Terms of Reference of the WFP Audit Committee[10] (Feb 2009) |
| Report of the External Auditor on Preparedness for IPSAS and WINGS II[11] (Feb 2009) |
| Audit report and opinion on the 2008 financial statements[12] (June 2009 ) |
| Report of the External Auditor on a WFP Country Office - Uganda[13] (Feb 2010) |
| Report of the External Auditor on the IPSAS Dividend: Strengthening Financial Management[14] (Feb 2010) |
| Advice to the Executive Board – Somalia[15] (April 2010) |
| External Audit Opinion and Report on the 2009 financial statements[16] (May 2010) |

Our external audit includes visits to Regional Bureaux and country offices. The work undertaken in 2009 is summarised below. On each visit we reviewed the operation of financial controls, undertook substantive testing of transactions, and assessed the implementation of IPSAS and WINGS II. After each visit we provided Management Letters to the Regional or Country Director with our findings and recommendations. Copies of these management letters have been provided to the Secretariat.

| External Audit Work At Regional Bureaux and Country Offices in 2009 | |
|---|---|
| **Regional Bureaux** | **Country Offices** |
| Sudan (August 2009) | Uganda (October 2009) |
| Senegal (November 2009) | Burkina Faso (November 2009) |

9 WFP/EB.2/2008/5-B/1/Add.1

10 WFP/EB.1/2009/6-B/1

11 WFP/EB.1/2009/6-D/1

12 WFP/EB.A/2008/6-A/

13 WFP/EB.1/2010/6-D/1

14 WFP/EB.1/2010/6-E/1

15 WFP Executive Board, June 2010

16 WFP/EB.A/2009/6-A/1

# ACRONYMS USED IN THE DOCUMENT

| | |
|---|---|
| ASM | After-Service Medical Plan |
| BMIP | Basic Medical Insurance Plan |
| CPRF | Compensation Plan and Reserve Fund |
| DBO | defined benefit obligation |
| DSC | direct support costs |
| DSCAF | Direct Support Cost Advance Facility |
| ERM | Enterprise Risk Management |
| ERMC | Enterprise Risk Management Committee |
| FAO | Food and Agriculture Organization of the United Nations |
| FX | foreign exchange |
| HLCM | High-Level Committee on Management |
| ICT | information and communications technology |
| IFRS | International Financial Reporting Standard |
| IPSAS | International Public Sector Accounting Standards |
| IRA | Immediate Response Account |
| ISC | indirect support costs |
| MGS | Monitoring Group on Somalia |
| ODOC | other direct operational costs |
| OR | Operational Reserve |
| OSRB | Other Separation-Related Benefits |
| PP&E | property, plant and equipment |
| PSA | Programme Support and Administrative |
| PSAEA | PSA Equalization Account |
| SRAC | Strategic Resource Allocation Committee |
| STRIPS | United States Treasury Separate Trading of Registered Interest and Principal of Securities |
| TPA | third-party agreement |
| UN | United Nations |
| UNDSS | United Nations Department of Safety and Security |
| UNJSPF | United Nations Joint Staff Pension Fund |
| UNORE | United Nations Operational Rates of Exchange |
| US$ | US dollar |
| VAT | value-added tax |
| WFP | World Food Programme |
| WINGS II | WFP Information Network and Global System II |